ABSTRACT

Microfinance is the provision of financial services to low-income clients, including consumers and self-employed who traditionally lack access to banking and related services. This paper highlights the meaning of microfinance and its features. The role of non-governmental organization in promotion of Microfinance programme, the current status of Microfinance in India, suggestions for the upliftment of Microfinance programme in India.

Keywords: Microfinance, SHGs, MFI’s, NGO’s

INTRODUCTION

Poverty is one of the few challenges that every single country in the world has to deal with and the number say it all. According to the World Bank, 2.7 billion people lived on less than $4 a day in 2011. Despite the difficulties involved in changing this situation, there are solutions and microfinance is one of them.

Starting with the Gramin Bank founded by Mohammad Yunus in the 1970s, Microfinance represented a method of lending that was to be tailored specifically to the world’s poorest populations. Throughout the years, Microfinance has proved to be a viable solution for the alleviation of poverty. In fact nowadays the industry is facing a new phase in its history commercialization.

Microfinance was initially a form of voluntary help to the most deprived populations. However today, it also represents a market solution to mitigation of poverty. The success rates and achievements of Microfinance fueled the interest of various institutions, NGOs, banking groups and government throughout the years and continue to do so. However, in order to accommodate this interest, Microfinance needs to become a structured, transparent and regulated industry where everyone can find a role for themselves. Individuals who have been working in Microfinance for a long time express their discontent about the commercialization aspect, of the notion of profit entering the field. Nevertheless, the increase in the participation to Microfinance, whether it is on behalf of a non-profit organization or a bank is the only factor that can make a significant change in the alleviation of poverty.

At the present stage, individuals involved in Microfinance agree that the demand of the clients of MFIs correspond to services offered by the formal financial sector.

Concept of Microfinance

Microfinance is the provision of financial services to low-income clients, including consumers and self-employed who traditionally lack access to banking and related services.

More broadly, it is a movement whose object is “a world in which as many poor and near poor households as possible have permanent access to an appropriate range and high quality financial services.”
services, including not just credit but also savings, insurance and fund transfers”. Those who promote microfinance generally believe that such access will help poor people out of poverty.

Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. In the Indian context like “small and marginal farmers” “rural artisans” and economically weaker sections” has been used to broadly define microfinance customers.

The recent Task Force on Microfinance has defined it as “provisions of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve living standards.” At present, a large part of microfinance activity is confined to credit only. Women constitute a vast majority of users of microcredit and saving services.

The proposed Microfinance Services Regulation Bill defines microfinance services assistance to an individual or an eligible client, either directly or through a group mechanism for:

i. An amount, not exceeding Rs.50000 in aggregate per individual for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) or

ii. An amount not exceeding Rs 1,50000 in aggregate per individual for housing purposes, Or

iii. Such other amounts, for any of the purposes mentioned at items (i) and (ii) above or other purposes, as may be prescribed.

LITERATURE REVIEW

According to Dr. Siddharth G. Das et al.(2013) have focused on Strategies to Counter Microfinance Delivery Challenges. The major hurdles in successful delivery of microfinance can be overcome through innovation in operational strategies to handle these macro and micro challenges. According to Report of India Brand Equity foundation (2013) by the Use of IT for monitoring, increasing productivity and efficiency, Internet-based funding model Microfinance challenges can be overcome. As asserted by Medatwal Chandan (2013) progress of SHGs is not up to the mark. It should be improved through various schemes and programmes and there is need to find the factors in SHGs programmes, which have greater impact on the empowerment of women. Sibhatullah Nasir (2013) found the contemporary issues and challenges in microfinance. Padamcholans Mahanta et al. (2012) has described the current status of Microfinance in India. The paper has focused on the factors and theoretical position associated with evolution of microfinance and its role in global scenario. He discovered the prevailing gap in the functioning of MFIs. According to D Bansal (2011) there is the need of technical innovations to improve the quality of microfinance services. A number of electronic devices are being used in different countries to expand the outreach and to improve the microfinance functioning. Some of these devices are mobile phones, ATMs, processor cards, computers etc. but there is enough scope to use such innovative techniques in microfinance sector in India. M.L.Chhipa (2011) emphasized on various measures initiated in the state to bring about women empowerment through microfinance in Rajasthan. He focused on various opportunities, developments and challenges in its way and gave recommendations for improving the situations. T.S. Anand et al. (2011) highlighted the Institutional Challenges in Micro Finance Sector. To be successful, in the market the Micro Finance Institutions marketing strategy must meet the customer’s requirements. He concluded that the MFIs should consider the Five Fold Factors like Challenges in Interest Rate, Win Over, Marketing Strategies, Customer Feedback and Analysis and Marketing Audit as institutional challenges for catering to the needs of the rural customer need thereby sustaining the credit operations by Micro Finance Institutions. A project was made on “A critical analysis of Microfinance in India” which was made by Mr. ARVIND KUMAR PANDEY from Skyline Business School from Gurgaon, India. He talked about the various institutions which help the government in the progress of Microfinance and the institutions are ICCI Bank, Bandhan, Grameen Bank, SKS Microfinance, and Self Help Groups (SHGs). The working of SHGs were also included in his report.
The obstacles or challenges to building a sound commercial microfinance industry include:

- Inappropriate donor subsidies.
- Poor regulation and supervision of deposit-taking MFIs.
- Few MFIs that mobilize savings.
- Limited management capacity in MFIs.
- Institutional inefficiencies.
- Need for more dissemination and adoption of rural, agricultural microfinance methodologies.

**OBJECTIVES**

- To define the meaning of Microfinance and Microfinance Institutions.
- To study the role of NGOS in promotion of Microfinance Program.
- To study the current status of Microfinance in India.

**Role of Non Governmental Organisations (NGOs)**

In India, informal NGOs in the form of temples trusts, panchayats existed since times immemorial. One of objectives of these agencies was to help the poor and improve their economic conditions. Charity and self help were built into the lifestyle of people. These agencies concentrated on literacy and skill development in order to expand the range of economic opportunities available to the poor people. Apart from this they also concentrated on health, upliftment of women and children.

The sterling contribution and potentials of NGOs to promote micro level development are universally acclaimed. Studies have revealed that the NGOs have been successful in mobilizing community resources for welfare programmes because of the following reasons:-

- They have greater human touch and closer personal and better transport.
- They are more adaptable to changing need and ideas.
- They modify their methods according to the need.
- They are dedicated and do not work within the time constraints.

The government of India’s criteria for identifying NGOs for rural development programmes is as follows:-

- It should a legal entity.
- It should have broad objective of sensing the social and economic need of the community as a whole.
- It should be based in rural area and working there for more than 3 years.
- The activities should be open to all citizen of India irrespective of religion, color, caste, creed, gender etc.
- It should have necessary flexibility and professional and organizational skills to implement programmes.
- It should declare that it will adopt constitutional and non violent means for rural development process.
- It is committed to secular and democratic concepts and methods of functioning.
Its office bearers should not be elected members of any political party.

ROLE OF NGOs IN DEVELOPMENT OF SHGs

The NGOs involved in promoting SHGs and linking them with the Formal Financial Agencies perform the following functions:-

1. Organizing the poor people into groups.
2. Training and helping them in their organizational, managerial and financial matters.
3. Helping them access to more credit and linkage with formal financial agencies.
4. Channelizing the group effort for various development activities.
5. Helping them availing opportunities, widening the options for economic development.
6. Helping them in sustaining the group effort independently even after withdrawal of the NGO.

Microfinance Institutions of India

The proposed regulations further define an MFI as “An organization or association of individuals including the following if it is established for the purpose of carrying on the business of extending microfinance services:

i. A society registered under the Societies Registration Act, 1860.
ii. A trust created under the Indian Trust Act 1880 or public trust registered under any state enactment governing trust or public, religious or charitable purposes.
iii. A cooperative society/mutual benefit society/ mutually aided society registered under any state enactment relating to such societies or any multistate cooperative society registered under the Multi State Cooperative Societies Act 2002 but not including:

A cooperative bank as defined in clause (CCI) of section 5 the Banking Regulation Act, 1949.

A cooperative society engaged in agricultural operations or industrial activity or purchase or sale of any goods and services. A range of institutions in public sector as well as private sector offers the microfinance services in India. They can be broadly categorized into two categories namely, Formal Institutions and Informal Institutions.

Formal Institutions comprises of Apex Development Financial Institutions, Commercial Banks, Regional Rural Banks & Cooperative Banks.

Informal Institutions that undertake Microfinance services as their main activity are generally referred to as Microfinance Institutions.

While both private and public ownership are found in the case of formal financial institutions offering Microfinance services, the MFIs are mainly in the private sector.

Microfinance Service Providers

The Microfinance service providers include Apex institutions like NABARD (National Bank for Agriculture and Rural Development), SIDBI (Small Industries Development Bank of India) and RMK (Rashtriya Mahila Kosh). At the retail level, Commercial Banks, Gramin Bank, Regional Rural Banks, and Cooperative Bank provide Microfinance services.

The uniqueness of the Microfinance through SHG is that it is a partnership based approach and encouraged NGOs to undertake not only social engineering but also financial intermediation especially in areas where banking network was not satisfactory. The rapid progress achieved in SHG formation, which has now turned into an empowerment movement among women across the country, laid foundation for emergence of MFIs in India.
Legal Forms of MFIs in India

<table>
<thead>
<tr>
<th>TYPE OF MFIs</th>
<th>ESTIMATED NUMBER</th>
<th>LEGAL ACTS UNDER WHICH REGISTERED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not for Profit MFIs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. NGO-MFI</td>
<td>400 to 500</td>
<td>Services Registration Act, 1860 or similar Provisional Acts Indian Trust Act 1882</td>
</tr>
<tr>
<td>Mutually Benefits MFIs</td>
<td>200 to 250</td>
<td>Mutually Aided Cooperative Societies Act enacted by the State Government.</td>
</tr>
<tr>
<td>Mutually aided Cooperative Societies and similarly set up institutions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For profit MFIs (NBFCs)</td>
<td>6</td>
<td>Indian Companies Act 1956 Reserve Bank of India</td>
</tr>
<tr>
<td>Total</td>
<td>700-800</td>
<td></td>
</tr>
</tbody>
</table>


diagram

Source: Brett Matthews, Madwood Consulting Company.

Status of Microfinance in India (2015-2016)

In India Microfinance operates through two main channels-(i) SHG Bank linkage programme, (ii) through Microfinance Institutions (MFIS) lending through individual and group approach. Microfinance Institutions emerged in India in the late 1980 to fill the gap in availability of banking services to the rural population.
Progress under SHG Bank Linkage Programme
(Numbers in lakh/Amount in crore)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total No. of SHGs linked</td>
<td>No of SHG</td>
<td>Amount</td>
<td>No of SHG</td>
</tr>
<tr>
<td>Loans Outstanding against SHGs as on 31 March</td>
<td>41.97 (5.71%)</td>
<td>42927.52 (9.02%)</td>
<td>44.68 (6.46%)</td>
</tr>
<tr>
<td>No. of all Women SHGs linked</td>
<td>34.06 (-9.34%)</td>
<td>36151.58 (10.08%)</td>
<td>38.58 (13.27%)</td>
</tr>
<tr>
<td>Percentage Of Women SHGs</td>
<td>81.2</td>
<td>84.2</td>
<td>86.35</td>
</tr>
<tr>
<td>Of which NRLM/SGSY</td>
<td>13.07 (9.55%)</td>
<td>10177.42 (18.38%)</td>
<td>18.46 (41.24%)</td>
</tr>
<tr>
<td>% of NRLM/SGSY Groups to Total</td>
<td>31.1</td>
<td>23.7</td>
<td>41.32</td>
</tr>
<tr>
<td>Of which NULM/SJSRY</td>
<td>NA</td>
<td>NA</td>
<td>3.18</td>
</tr>
<tr>
<td>% of NULM/SJSRY Groups to Total</td>
<td>NA</td>
<td>NA</td>
<td>7.12</td>
</tr>
</tbody>
</table>

(Figures in parentheses indicate increase/decrease over the previous year)
Source- NABARD

MFI-Bank Linkage Programme
Microfinance Institutions act an important role for extending financial resources to the microfinance sector in the country by raising resources from bank and other institutions and extending loans to individuals or member of SHG.

Progress under MFI-Bank Linkage Programme
(Numbers in lakh/Amount in crore)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans disbursed by banks/FIs to MFIs</td>
<td>No. of accounts</td>
<td>Amount</td>
<td>No. of accounts</td>
</tr>
<tr>
<td>545</td>
<td>10282.49 (31.16%)</td>
<td>589</td>
<td>15190.13 (47.73%)</td>
</tr>
<tr>
<td>Loans outstanding against MFIs as on 31 March</td>
<td>2422</td>
<td>16517.43 (14.50%)</td>
<td>4662</td>
</tr>
</tbody>
</table>
SUGGESTIONS

- Suggestion to Government that they should not provide the people such facility that discourages poor people for earning income (like Rs.2/KG) rice.
- Special measures should be taken to promote this concept (through advertisements).
- Awareness camps should be organized at rural area for poor and needy people
- More NGOs should be opened for the upliftment of Microfinance.
- More SHGs should come up with for needy people which can be given full help of Microfinance.

REFERENCES

7. NABARD Publications.

| Loan Outstanding as % of fresh loans | 160.64 | 148.13 | 123.00 |

(Figures in parenthesis indicates growth/decline over the previous year
Source: NABARD)