

THE PERFORMANCE OF MICRO FINANCE IN INDIA: A REVIEW

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Abstract

Micro finance in the global context is commonly understood to refer to programmes meant for providing credit for self-employment and other financial and business services to very poor persons. Micro finance is the small scale financial services provided to the people who work in agriculture, fishing, herding; who operate small or micro enterprises; who provide services; who work for wages or commission; and other individuals or groups at the local level of developing countries, both rural and urban. The microfinance were utilized for multipurpose both personal and as well as empowerment when comparing with other loan the repayment capacity is more in microfinance. The present paper made an attempt to analyze the performance of micro finance in terms of saving of SHG members, Loan distributed to SHG members and outstanding of micro finance loan of SHG members. With a more enabling environment and surge in economic growth, the next few years promise to be exciting for the delivery of financial services to the poor people in India in the form of micro finance.

Key Words: *Microfinance, Self Help Group, Rural Credit, Women Empowerment*

Introduction

Micro finance refers to the provision of financial services to low-income clients, including the self-employed. The term also refers to the practice of sustainably delivering those services. More broadly, it refers to a movement that envisions a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers. Micro finance could be defined as the provision of a broad range of financial services such as deposits, loans, money transfers and insurance to the poor, low income households and micro-enterprises. Another definition of micro finance is the small scale financial services provided to the people who work in agriculture, fishing, herding; who operate small or micro enterprises; who provide services; who work for wages or commission; and other individuals or groups at the local level of developing countries, both rural and urban. The Task Force constituted by NABRD defined micro-finance as 'provision

of thrift, credit and other financial services and products of very small amounts to the poor in rural and semi-urban or urban areas for enabling them to raise their income levels and in improving living standards. As per one of the working groups of RBI Micro finance refers to small saving, credit and insurance services extended to socially and economical disadvantaged segments of the society. In much more broader context, it includes capacity building, training, marketing of products, establishing forward and backward linkage to micro-enterprise.

Principles of Micro finance

Micro finance is a key element in creating solid financial markets in developing countries like India. Many micro finance providers and other industry stakeholders are focusing more on the need to deliver services that are safe, offer good value for money and are likely to provide benefits for poor people. Micro finance principles are framed to ensure whether micro finance institutions set and enforce rules that services are offered transparently, treat the consumers fairly and do not put them at risk from harm such as over indebtedness. Some principles that summarize a century and a half of development practice were encapsulated in 2004 by Consultative Group to Assist the Poor (CGAP) and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004:

- Poor people need not just loans but also savings, insurance and money transfer services.
- Micro finance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
- "Micro finance can pay for itself." Subsidies from donors and government are scarce and uncertain, and so to reach a large number of poor people, micro finance must pay for itself.
- Micro finance means building permanent local institutions.
- Micro finance also means integrating the financial needs of the poor people into a country's mainstream financial system.
- The job of a government is to enable financial services, not to provide them.
- Donor funds should complement private capital, not compete with it. The key bottleneck is the shortage of strong institutions and managers. Donors should focus on capacity building.
- Interest rate ceilings hurt poor people by preventing micro finance institutions from covering their costs, which chokes off the supply of credit.
- Micro finance institutions should measure and disclose their performance - both financially and socially.

Need for Micro finance

The rural poor people face a great barrier to basic financial services. One problem is that the poor people do not have own property, so they cannot provide collateral security needed to secure loans. Then, most of the people have no previous credit records and lack education or a formal employment record and many of them are living in rural areas beyond the reach of traditional banking. To overcome poverty, they need to borrow, save and invest and to protect their family against adversity. Due to the above reasons, they are unable to obtain loan from banks and other formal financial institutions. Micro finance is one of the ways of fighting poverty in rural areas, where the people live. Micro finance provides credit savings, insurance and other basic financial services within the reach of the poor people. The micro finance revolution started with the recognition that poor people needed access to loans and that they could use these funds productively. It has also changed the perception that poor people are not credit worthy and rural men and women find an opportunity to improve their standard of living.

Micro finance worldwide scenario

According to the World Bank estimates more than 7000 micro finance institutions are serving some 16 million poor people in developing countries. The total cash turnover of micro finance institutions worldwide is estimated to be US \$2.5 billion and the potential for new growth is outstanding. It is estimated that, worldwide there are 13 million micro credit borrowers with US\$ 7 billion in outstanding loans and generating repayment rates of 97 percent. It has been growing at a rate of 30 percent annual growth, micro finance enjoys a strong and steady growth worldwide.

During the year 2010, over 105 million borrowers were granted micro credit in developing countries out of which more than 56 percent live in South Asia, 80 percent are women beneficiaries and 70 per cent live in rural areas. In the year 2010, the number of loan portfolio and active borrowers grew 26 percent and 12 percent respectively. It is expected that further growth of micro finance sector will be led by full service banks offering low income clients specific products and services. Reflecting the scaling of operations in micro finance currently over 100 large institutions represent roughly 82 per cent of the global loan portfolio and 80 percent of borrowers. Micro finance has been a leading driver in achieving the milestone of banking half of the world's population.

The Performance of Micro Finance in India

The formal banking sector has played an important role in micro finance in India. Much of the micro finance initiative in India has involved Self-Help Groups (SHGs), predominantly of poor women. NABARD's Bank Linkage Program, pilot-tested in 1991-92 and launched in full vigor in 1996, has been a major effort to connect thousands of such

SHGs across the country with the formal banking system. The emphasis on linking the self-help groups of rural poor to the formal banking system was made in the mid-80s in the Asia and Pacific Regional Agricultural Credit Association and the SHG-Bank Linkage emerged as a result of that. RBI included the program in its “priority sector lending” and in 1999, the Government of India recognized in its budget. A few studies commissioned by NABARD on the tenth anniversary of the launching of the program in 2002 attempted an assessment of the program. The findings indicated that the program has emerged as the largest micro finance network in the world with some impressive statistics. The state wise performance of micro finance in terms of savings of SHG members, loan disbursed to SHG members and loan outstanding from SHG members as on 31st march 2012 are given blow.

State wise Savings of SHGs with Banks

The savings of SHG members with public sector banks, private sector banks and cooperative banks at the all India level is given in Table 1.

Table 1 Statewise Savings of SHGs with Banks as on 31 March 2012

(Amount in lakh)

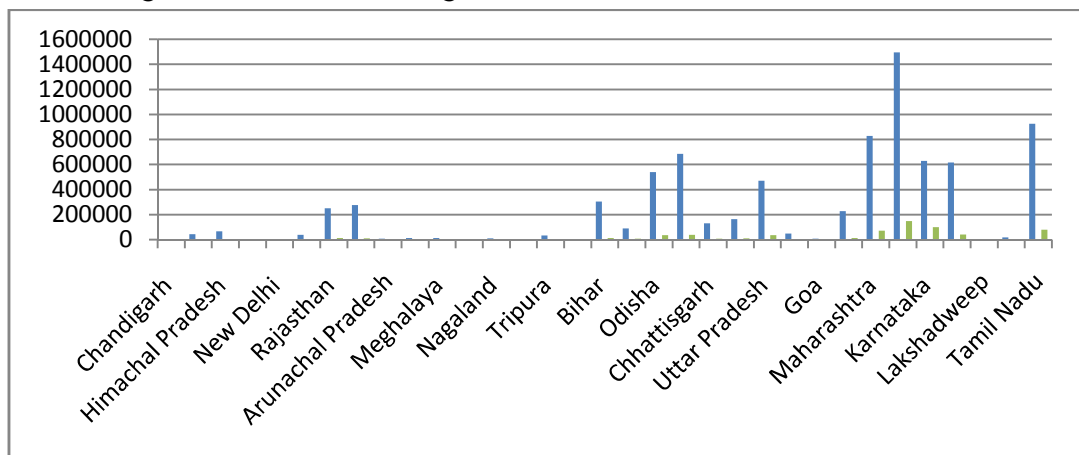
States	No. of SHG	Percentage to Total	Savings of SHG	Percentage to Total	Savings per SHG
Chandigarh	619	0.01	102.1	0.02	6.063
Haryana	44184	0.56	3678.35	0.56	12.01
Himachal Pradesh	65641	0.82	3288.62	0.50	19.96
Jammu & Kashmir	6349	0.08	433.08	0.07	14.66
New Delhi	3536	0.04	325.02	0.05	10.88
Punjab	37343	0.47	4662.61	0.71	8.009
Rajasthan	251654	3.16	12787.1	1.95	19.68
Assam	276565	3.47	9845.98	1.50	28.09
Arunachal Pradesh	8363	0.11	186.32	0.03	44.89
Manipur	12711	0.16	219.38	0.03	57.94
Meghalaya	14091	0.18	414.74	0.06	33.98
Mizoram	4976	0.06	572.91	0.09	8.685
Nagaland	10711	0.13	374.48	0.06	28.6
Sikkim	5280	0.07	260	0.04	20.31
Tripura	34021	0.43	3377.95	0.52	10.07
A & N Islands (UT)	5521	0.07	131.28	0.02	42.06
Bihar	305113	3.83	14042.4	2.14	21.73
Jharkhand	89603	1.13	6721.75	1.03	13.33
Odisha	540029	6.78	36136.4	5.52	14.94
West Bengal	685448	8.61	37694.4	5.75	18.18
Chhattisgarh	129854	1.63	7394.46	1.13	17.56
Madhya Pradesh	163588	2.06	11229.1	1.71	14.57
Uttar Pradesh	471184	5.92	36821.4	5.62	12.8
Uttarakhand	48141	0.60	5913.27	0.90	8.141
Goa	8414	0.11	868.7	0.13	9.686
Gujarat	226626	2.85	13963.2	2.13	16.23
Maharashtra	827047	10.4	72361.8	11.00	11.43
Andhra Pradesh	1495904	18.8	149016	22.70	10.04
Karnataka	628643	7.90	100213	15.30	6.273
Kerala	615714	7.73	41371.1	6.31	14.88
Lakshadweep	171	0	12.48	0	13.7
Puducherry	17913	0.23	1682.91	0.26	10.64
Tamil Nadu	925392	11.60	79039.8	12.10	11.71
Total	7960349	100.00	655141	100.00	12.15

Source: Status of Micro finance 2011 - 12, NABARD

The state-wise distribution of SHGs linked with banks shows considerable variation in the share of total SHGs. Andhra Pradesh has a disproportionately large share of over 18.8 percent of all linked SHGs. Tamil Nadu and west Bengal follow with about 11.6 percent and

8.6 percent of share respectively. Odisha comes next with about 9per cent. The rest of country thus accounts for about a quarter of the total SHGs combined. Regarding the savings of SHG members, Andhra Pradesh stands first with 22.70 percent, followed by Karnataka with 15.30 percent. Tamilnadu secured the third position with 12.10 percent followed by Maharashtra state with 11.00 per cent. From an all-India perspective, therefore, the SHG-bank linkage programme has been very strongly biased towards the South and has not provided a balanced access to credit for the poor in India.

Figure 1: State-wise Savings of SHGs with Banks as on 31 March 2012



State-wise Micro finance loan Distributed to SHGs

The state wise micro finance loan disbursed to SHG members through public sector banks, private sector banks and cooperative banks at the all India level is given in Table 2.

Table 2: State-wise Micro finance loan Distributed to SHGs as on 31 March 2012

(Amount in lakh)

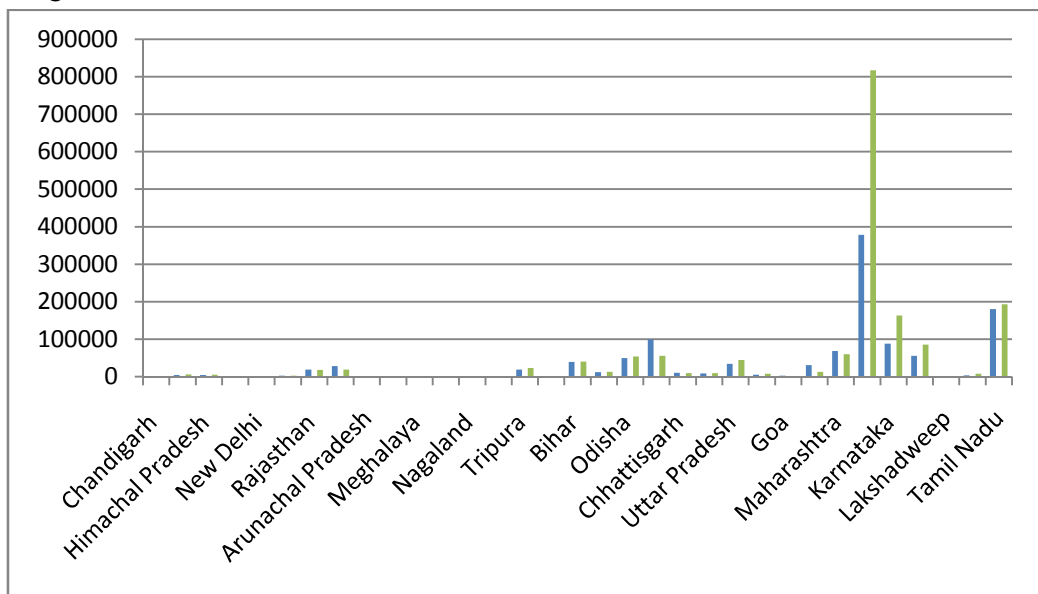
States	No of SHG	Percentage to Total	Loan Distributed	Percentage to Total	Loan per SHG
Chandigarh	48	0.00	55.87	0.00	0.86
Haryana	3865	0.34	6195.93	0.37	0.62
Himachal Pradesh	4269	0.37	5324.46	0.32	0.8
Jammu & Kashmir	1013	0.09	803.7	0.05	1.26
New Delhi	511	0.04	507.98	0.03	1.01
Punjab	2183	0.19	2381.89	0.14	0.92
Rajasthan	18862	1.64	18273.37	1.11	1.03
Assam	28012	2.44	18746.98	1.13	1.49
Arunachal Pradesh	130	0.01	157.96	0.01	0.82
Manipur	1308	0.11	857.52	0.05	1.53
Meghalaya	691	0.06	489.22	0.03	1.41
Mizoram	575	0.05	690.2	0.04	0.83
Nagaland	862	0.08	621.29	0.04	1.39
Sikkim	396	0.03	423.7	0.03	0.93
Tripura	19029	1.66	23141.87	1.40	0.82
A & N Islands (UT)	710	0.06	570	0.03	1.25
Bihar	39241	3.42	39860.94	2.41	0.98
Jharkhand	12040	1.05	12741.07	0.77	0.94
Odisha	49831	4.34	54097.58	3.27	0.92
West Bengal	99379	8.66	55136.55	3.33	1.80
Chhattisgarh	10087	0.88	9258.84	0.56	1.09
Madhya Pradesh	8751	0.76	9544.2	0.58	0.92
Uttar Pradesh	34497	3.01	44540.83	2.69	0.77
Uttarakhand	5125	0.45	7592.96	0.46	0.67
Goa	2312	0.20	1988.84	0.12	1.16
Gujarat	30336	2.64	13116.83	0.79	2.31
Maharashtra	68396	5.96	60180.02	3.64	1.14
Andhra Pradesh	378526	33.00	817142.05	49.40	0.46
Karnataka	87943	7.66	162949.21	9.85	0.54
Kerala	55242	4.81	85415.45	5.17	0.65
Lakshadweep	8	0.00	1.15	0.00	0
Puducherry	3798	0.33	7376.87	0.45	0.51
Tamil Nadu	179902	15.70	193291.54	11.70	0.93
Total	1147878	100.00	1653477	100.00	0.69

Source: Status of Micro Finance 2011 - 12, NABARD

It is clear from Table 2 that nearly half of micro finance loan (49.4 percent) was distributed to Andhra Pradesh state, the next highest percentage of loan 11.70 percent was disbursed to Tamil Nadu state followed by Karnataka (9.85 percent). All the three states

received nearly 70 percent of micro finance loan and the remaining 30 percent was distributed to all other states. Regarding micro finance loan given to individual self help groups, Gujarat stands first with 2.31 lakhs. The second position was secured by West Bengal with 1.80 lakhs followed by the Manipur state with the average micro finance loan given to self help groups being 1.53 lakhs. It can be concluded that the total loan provided to the self help group in India as on 31st march 2012 was Rs.1653477 lakhs, the average loan given to per group was Rs. 0.69 lakhs.

Figure 2: State-wise Micro finance loan Distributed to SHGs as on 31 March 2012



State-wise Micro finance loan Outstanding from SHGs

The state wise micro finance loan outstanding from SHG members to public sector banks, private sector banks and cooperative banks at the all India level is presented in Table 3.

Table 3: State-wise Micro finance loan Outstanding from SHGs as on 31 March 2012
(Amount in lakh)

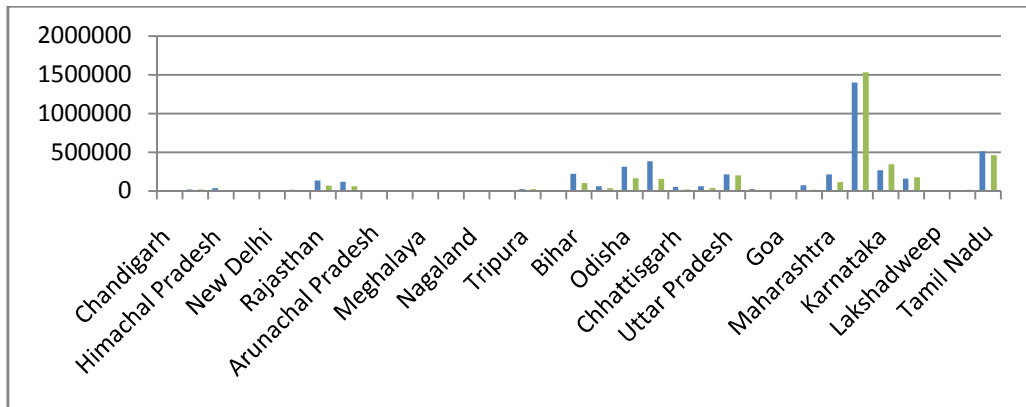
States	No of SHG	Percentage to Total	Loan Outstanding	Percentage to Total	Loan Outstanding per SHG
Chandigarh	213	0	191.99	0.01	1.11
Haryana	21433	0.49	20575.01	0.57	1.04
Himachal Pradesh	35872	0.82	14090.33	0.39	2.55
Jammu & Kashmir	3138	0.07	1647.1	0.05	1.91
New Delhi	1120	0.03	1419.99	0.04	0.79
Punjab	15304	0.35	8412.86	0.23	1.82
Rajasthan	134961	3.1	71490.25	1.97	1.89
Assam	117809	2.71	63021.64	1.73	1.87
Arunachal Pradesh	361	0.01	291.13	0.01	1.24
Manipur	5807	0.13	2300.18	0.06	2.52
Meghalaya	2569	0.06	1394.64	0.04	1.84
Mizoram	2383	0.05	4003.37	0.11	0.6
Nagaland	2752	0.06	1789.79	0.05	1.54
Sikkim	2561	0.06	1208.27	0.03	2.12
Tripura	25174	0.58	25317.81	0.7	0.99
A & N Islands (UT)	1349	0.03	610.52	0.02	2.21
Bihar	223033	5.12	104071.34	2.86	2.14
Jharkhand	63336	1.45	35955.95	0.99	1.76
Odisha	314669	7.23	165338.66	4.55	1.9
West Bengal	382942	8.79	157003.37	4.32	2.44
Chhattisgarh	53285	1.22	20259.57	0.56	2.63
Madhya Pradesh	60815	1.4	41408.15	1.14	1.47
Uttar Pradesh	212922	4.89	203176.97	5.59	1.05
Uttarakhand	25430	0.58	13184.44	0.36	1.93
Goa	2965	0.07	2491.13	0.07	1.19
Gujarat	72495	1.66	17633.18	0.49	4.11
Maharashtra	214012	4.91	116253.99	3.2	1.84
Andhra Pradesh	1400995	32.2	1534172.26	42.2	0.91
Karnataka	266978	6.13	346988.17	9.55	0.77
Kerala	159843	3.67	177922.64	4.9	0.9
Lakshadweep	35	0	12.1	0	2.89
Puducherry	13678	0.31	16436.58	0.45	0.83
Tamil Nadu	514203	11.8	463926.81	12.8	1.11
Total	4354442	100	3634000.19	100	1.2

Source: Status of Micro Finance 2011 - 12, NABARD

Table 3 shows the state wise micro finance loan outstanding as on 31st march 2012. Andhra Pradesh has the highest outstanding of 42.2 percent micro finance loan

followed by Tamil Nadu with 12.8 percent, Karnataka secured third position, with outstanding loan of 9.55 percent. Regarding micro finance loan outstanding per self help group, the highest outstanding per group was Rs. 4.11 lakhs in Gujarat state. The next highest loan given to per self help group was Rs. 2.63 lakhs in Chhattisgarh followed by Rs.2.55 lakhs in Himachal Pradesh. It can be concluded that the average loan given to a self help group in India was Rs. 1.2. lakhs during the year 2012.

Figure 3: State-wise Micro finance loan Outstanding from SHGs as on 31 March 2012



Conclusion

The micro finance initiative in India has involved Self-Help Groups (SHGs), predominantly of rural poor women. In future, with a more enabling environment and surge in economic growth, the next few years promise to be exciting for the delivery of financial services to the poor people in India in form of micro finance. It is expected that in the following years, there will be considerable deepening of micro finance in this direction along with simultaneous drives to reach and serve the poorest of the poor in India.

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