GROWTH and PERFORMANCE of ENTREPRENEURSHIP in INDIA through MICRO FINANCING

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Abstract

Microfinance refers to the provision of financial services to low-income clients, including consumers and the self-employed. Microfinance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process. Microfinance was slow in coming to India. An unfavourable policy environment, low levels of grants to microfinance institutions, traditional banking infrastructure and a need for context specific solutions has constrained its rapid scale up. Micro credit allows poor people to increase their income by starting new enterprises, improves child health, promotes gender equality and ensures economic sustainability, etc. This paper reviews the performance of self-help group Bank Linkage Program and examines some of the key microfinance approaches in India. The paper offers some recommendations on what it would take to reform these institutions with an eye to improve access for the poor.

INTRODUCTION:

Microfinance is an activity which provides financial services such as credit, savings, and insurance to low income individuals who are just above the nationally defined poverty line, and those who fall below it, with the goal of creating social value. Microcredit emergence in India has to be seen in this backdrop for a better appreciation of current paradigm. Successful microfinance interventions across the world, especially in Asia and in parts of India by NGOs, provided further impetus.

A large variety of factors provide microfinance in India, using a range of microfinance delivery methods and systems. Government has piloted national programs, NGOs have undertaken the activity of raising donor funds for on-lending, and some banks have joined with public organizations or made small inroads themselves in providing such services. The range of activities undertaken in microfinance include group lending, individual lending, the provision of savings and insurance, capacity building, and agricultural business development services. Microfinance is therefore defined as much by form as by content of the lender or financial service provider.

It refers to a movement that envisions a world in which as many poor and near-poor households or individuals as possible have an access to an appropriate range of high quality financial 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.

HISTORY

Microfinance emerged in the 1970s, as social innovators began to offer financial services to the working poor those who were previously considered "un-bankable" because of their lack of collateral. In the early 1970s, several pioneering enterprises began experimenting with loaning to the poor and underserved. An early pioneer of microfinance at the time was Akhtar Hameed Khan. And the first fully-incorporated microfinance and community development bank was Shore Bank, founded in 1973 in Chicago. The Norwegian Nobel Committee decided to award the Nobel Peace Prize for 2006, divided into two equal parts, to Muhammad Yunus and Grameen Bank for their efforts to create economic and social development starting from the lower sections of the society. The area of Microfinance sector is both old and new. The sector is new because it has primarily developed as a response to the inability or indifference of commercial banks and the formal financial system to serve the needs of low-income households and micro Enterprises.

Microfinance was slow in coming to India. An unfavourable policy environment, low levels of grants to microfinance institutions, traditional banking infrastructure and a search for context specific solutions has constrained rapid scale up. The first step forward emerged from policy support to facilitate informal self help groups of 15-20 members (mainly women) from commercial banks. These groups build up and rotate savings amongst themselves, open bank accounts and take responsibility for lending and recovering money financed by banks. With the missionary eagerness of the National Bank for Agriculture and Rural Development (NABARD), insights gained by NGOs, the increasing passion of bankers and politicians and emerging successes in repayment and social impacts, this national movement now encompasses 1.4 million such groups (over 20 million members). For the purpose, NABARD launched a pilot phase of SHG Bank Linkage program in 1992. SHGs are informal groups whose members pool savings and re-lent within the group on rotational or needs basis. These groups have a common perception of need and impulse towards collective actions. Number of SHGs linked with the program has continuously increased year after year. Though SHGs model was more popular among the southern states in the beginning, in recent years non-southern states have also picked up and their share has increased considerably since 2000-01 because of special scaling up efforts undertaken by NABARD in 13 identified priority states which account for 70% of India's rural poor.

SUPPORTING MICROFINANCE BY ENTREPRENEURS

The entrepreneurial ability of the group members is intimately related to their environment, their past history of having participated in any such activity and any previous experience of some or all the members in such activity. This opportunity structure is formed by the activities of NGOs, government programs, the evolution of the village in different ways and the consequent awareness. In many of these ventures, financial management is minor but as more ambitious ventures come up, support needed at different stages of business development to ensure liquidity and sound finances. It is here that the NGO is useful and indeed critical. In an entirely credit led operation, as with most commercial MFIs, the entrepreneur is left to his own devices and substantial failures are bound to occur , as with most entrepreneurial ventures that flounder because good ideas have not been supported with financial control or/ and adequate marketing strategies. Since it is more likely that those borrowers who take up alternate, supplementary livelihood activities find higher relief by raising their incomes, their entrepreneurial capacity is important. This capacity is not merely a function of native ability, which may be quite uniformly distributed, but also related to socialisation and risk taking capacity.

REVIEW OF LITERATURE

Labie (1996) tried to identify to what extent the corporate governance framework can be applied to microfinance organizations. Therefore, after considering some of the key issues, the study tried to show how relevant these issues would be for microfinance industry.

Kumar and Newport (1997) examined the suitability of using microfinance for natural disaster risk reduction at the household and community level, and also of delivering it in the wake of a natural disaster. The researcher explained microfinance strategies which comprised of: diversifying income source, designing new loan products, risk management, sustainability of microfinance institutions post disaster; liquidity management post-disaster, etc and stated that microfinance should be recognized as one of a series of measures within a disaster risk management strategy.

Satta (1998) argued in favour of regulating microfinance operations and financial sustainability. He used the case of the microfinance industry in Tanzania and aimed at moving the microfinance regulation debate forward by generating a number of relevant inputs towards the formulation of a regulatory framework. This contribution probably came at an opportunistic moment when the Tanzanian government was in the process of formulating a framework to regulate and supervise microfinance institutions.

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Siwar and Talib (2000) evaluated the performance of three MFIs, namely Amanah Ikhtiar Malaysia (AIM), Yayasan Usaha Maju (YUM) and Koperasi Kredit Rakyat (KKR). The paper provided a micro-finance capacity assessment to identify issues and constraints especially with respect to outreach, viability or sustainability, resource mobilisation, and policy environment.

Kasim and Jayasooria (2001) aimed at two-fold aspects: first, to discuss the role of microfinance institutions (MFIs) in promoting informal sector in Malaysia; second, to identify issues and policy measures on MFIs and the informal sector. The paper attempted to suggest that there was a strong need formal polices and institutions to service the informal sector and tapped their potential for economic regeneration. The paper focussed on six micro-finance programmes, namely, Amanah Ikhtiar Malaysia, Yayasan Usaha Maju Koperasi Kredit Rakyat, Kooperasi Kredit Pekerja, Partners in Enterprise Malaysia and Project TEKUN. This paper concluded by reviewing issues and challenges of MFIs.

Kumar and Newport (2002) made an attempt to show how microfinance has contributed to poverty reduction and strengthening the risk management capacity of the poor. The study considered disaster preparedness of micro finance institutions (MFIs) especially in natural disasters, economic crisis and civil conflicts. The study found that it was essential for MFIs to prepare a strategy for maintaining liquidity in a disaster situation, especially keeping disaster loan funds (DLFs) in reserve to help affected households. Sees

disaster management as a dynamic process that could ideally be developed during normal times and tested in actual disasters but it required careful planning and commitment on the part of all stakeholders.

Mwenda and Muuka (2003) defined MFIs with examples from Zambia, South Africa, Mali and Zimbabwe and also established a clear link between MFIs and both poverty eradication and the empowerment and equality of women, two of the major Millennium Development Goals. The paper concluded with some policy recommendations and a set of "best practices" for the future success of MFIs on the continent, including the need to ensure flexibility and careful government regulation and supervision of MFIs.

Savita Shankar (2004) indicated that transaction costs were main contributor to high interest rates on microcredit loans and suggested that MFIs should minimize the number of layers of fixed costs in their system and examine alternative revenue-generating activities that can be undertaken with minimal incremental costs. Policymakers need to take into account transaction costs when examining the interest rates charged by MFIs.

Shillabeer (2006) analysed of the dual impact of flooding and micro credits in Bangladesh and found that preventive mitigation and coping strategies has declined in Bangladesh. The main reason behind that is the declining rural income, despite a large presence of MCOs in the country.

NEED FOR THE STUDY

As we know, a long majority of the Indian population is lies below the poverty line. Indian growth depends mainly upon the agriculture sector and small entrepreneurs, both of which need finance from the government under many circumstances. These are poor people who need finance on a small scale. Many cooperative societies and government give them finance, which is called micro credit or microfinance. So, there is need to study microfinance areas and its institutions.

OBJECTIVES

- To evaluate the performance of self help group Bank linkage program in India.
- To study the initiatives taken by various Microfinance institutions in providing microfinance.
- To study the avenues in which microfinance can be used.

RESEARCH METHODOLOGY

The data used in this paper is secondary. It has been collected from the site of NABARD. The research type is analytical in which the facts, figures and information used are from those already existing. These data information have been analyzed to make a critical evaluation.

GROWTH OF MICROFINANCE:

Table 1: Self Help Group Bank Linkage Program

Year	No. of SHGs	Growth%	Cumulative No. of SHGs Linked	Bank Loan	Growth%	Cumu lative Bank Loan	Cumu lative Refinance
1992-93	255	-	255	0.29	-	0.29	0.27
1993-94	365	43.1	620	0.36	24.1	0.65	0.46
1994-95	1502	311.5	2122	1.79	397	2.44	2.13
1995-96	2635	75.4	4757	3.62	102	6.06	5.66
1996-97	3841	45.8	8598	5.78	60	11.84	10.65
1997-98	5719	48.9	14317	11.92	106	23.76	21.39
1998-99	18678	226.6	32995	33.31	140	57.07	52.06
1999-00	81780	337.8	114775	135.91	238	192.98	150.13
2000-01	149050	82	263825	287.89	112	480.87	394.98
2001-02	197653	33	461478	545.47	89	1026.34	790.24
2002-03	255882	29	717360	1022.34	87	2048.67	1412.71
2003-04	361731	41	1079091	1855.53	81	3904.2	2118.15
2004-05	539365	49	1618456	2994.25	62	6898.46	3085.91
2005-06	620109	15	2238565	4499.09	50	13397.46	4153.63
2006-07	1105749	78.3	2894505	6570	46.0	12366.49	5446.49
2007-08	1227770	11.0	3625941	8849.26	34.6	16999.9	7061.99
2008-09	807905	-34.19	-	4585.45	-48.1	-	9682.02

Source: RBI Publication, Handbook of Indian Economy, 2009

Note: Growth percent denotes percentage variation over previous years. Percentage variation in 1992-93 was calculated as a low base.

The table shows that pilot projects, started in 1992 with only 255 SHGs, got substantial boost from 1998-99 i.e. in the expansion phase. In fact number of SHGs linked with the program has continuously increased year after year. During 2008-09, 10.81 lakh new

SHG were credit linked and bank loan of Rs.11, 132 crore disbursed. The programme has covered more than 7.01 crore poor households, making it the largest micro-Finance (MF) programme in the world. As on 31 March 2008, 50.09 lakh SHG maintained savings worth Rs.3, 785 crore with the banking sector. During 2007-08, bank credit of Rs.8, 849 crore and Rs.1, 970 crore was disbursed to 12.27 lakh SHG (including 2.46 lakh under SGSY) and 518 MFI, respectively. During 2008-09, grant assistance of Rs.1, 769 lakh was sanctioned to various agencies for promoting 59,359 groups, taking the cumulative assistance sanctioned to Rs.7, 888 lakh for 4.36 lakh groups. NABARD also extended support for conducting 3,122 awareness creation and capacity building programmes covering 1, 41,984 SHG members. To motivate and assist members of matured SHG to take up income generating activities on a sustainable basis, NABARD continued to promote micro-enterprise development by SHG members. Under the Micro-Enterprise Development Programme (MEDP), 564 such programmes covering 41,030 SHG members were conducted during the year. The pilot project launched during 2005-06 for promotion of microenterprises among members of matured SHG, is being implemented in nine districts across nine States, involving 14 NGO acting as 'Micro-Enterprise Promotion Agency (MEPA)'. Cumulatively 6,107 micro-enterprises were established under the project, involving bank credit of Rs.535 lakh, as on 31 March 2009. In addition, NABARD provides financial assistance to commercial banks and RRB to avail the services of credit rating agencies for the purpose of rating of MFI and empowering them to intermediate between the lending banks and the clients. During the year, support of Rs.3.40 lakh was extended to four agencies for availing credit rating services.

Table 2: PROGRESS OF MF PROGRAMME AS ON 31ST MARCH

PARTICULARS	SELF HELP GROUPS				MICRO FINANCE INSTITUTIONS(MFI)			
	2007		2008		2007		2008	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
LOANS DISTRIBUTED	1105749	6570.39	1227770	8849.26	33 4	1151.5	518	1970.15
LOANS OUTSTANDING	2894505	12366.4	3625941	16999.9	55 0	1584.4	1109	2748.84
SAVING A/C WITH BANKS	4160584	3512.71	5009794	3785.39				

Source: NABARD, Annual Report 2008-09

SHG-Bank Linkage Programme, since its pilot in 1992, has emerged as the leading micro-Finance (MF) programme in the country. It is recognised as an effective tool for extending access to formal financial services to the unbanked rural poor. Encouraged by the success, the programme has been adopted by State Governments as a major poverty alleviation strategy. It has also led to the emergence of Micro-Finance Institutions (MFI) as a bridge between the banking sector and the rural poor. During the year 10,81,474 SHG were credit linked with banks and bank loan of Rs.11,131.74 crore (including repeat loans) disbursed taking the number of SHG credit linked to Rs.47,07,415 SHG as on 31 March 2009. As on 31 March 2008, 50.09 lakh SHG maintained savings bank accounts and had savings worth Rs.3,785.39 crore. The programme has covered more than 7 crore poor households, making it the largest MF programme in the world. The overall progress of the MF programme is given in Table.

Table 3: AGENCY WISE SAVINGS & LOANS OUTSTANDING TO SHGs AS ON 31st MARCH

AGENCY	2007 No.	AMT	2008 No.	AMT
COMMERCIAL BANKS	2293771	1892.42	2810750	2077.73
RRB's	1183065	1158.29	1386838	1166.49
COOPERATIVE BANKS	683748	462.00	812206	541.17
TOTAL	4160584	3512.71	5009794	3785.39
SAVINGS PER SHG		8469		7556
LOANS OUTSTANDING				
COMMERCIAL BANKS	1893016	8760.38	23,78,847	11475.47
RRB's	729255	2801.76	875716	4421.04
COPERATIVE BANKS	272234	804.35	371378	1103.39
TOTAL	28,94,505	12,366.49	36,25,941	16999.90
SAVINGS PER SHG		42,724		46884

Source: NABARD, Annual Report 2008-09

A. Support to Partner agencies NABARD continued to extend grant to support NGO, RRB, DCCB, FC and Individual Rural Volunteers (IRV) for promoting and nurturing quality SHGs. Efforts continued towards roping in new Self-Help Promoting Institutions (SHPIs) and supporting the existing ones. During 2008-09, grant assistance of Rs.1, 768.53 lakh was sanctioned to various agencies for promoting 59,359 groups, taking the cumulative assistance sanctioned to Rs.7, 887.90 lakh for 4.36 lakh groups. As on 31 March 2009, 2.06 lakh SHG have been credit linked to banks and Rs.3, 275.62 lakh released.

B. Capacity Building of Partner Agencies

Under NABARD's capacity building programmes for its partner agenies, 25 exposure/field visits for bank/NGO officials to SHG and revolutionary institutions, 324 awareness-cum-refresher programmes for participants from banks and NGOs, 45 sensitisation programmes were arranged during the year. An expenditure of Rs.18.73 crore was incurred during 2008-09 on various promotional activities as against Rs.13.32 crore in the 2007-08. During the year, NABARD supported in conduct of 3,122 awareness creation and -capacity building programmes for SHG members.

Table 4: PROGRESS UNDER MFI BANK LINKAGE PROGRAMES AS ON 31ST MARCH

PARTICULARS	BANK LOAN DISTRIBUTED				LOANS OUTSTANDING			
	2007		2008		2007		2008	
	No.	AMT	No.	AMT	No.	AMT	No.	AMT
COMMERCIAL	327	1151.34	497	1968.60	54	1584.2	1072	2745.24
BANKS					1			
RRB's	7	0.22	8	1.51	8	0.2	24	3.58
COPERATIVE			13	0,04	1	0.01	13	0.02
BANKS								
TOTAL	334	1151.56	518	518	55 0	1584.48 8	1109	2748.84

Source: NABARD, Annual report 2008-09

During 2008-09, NABARD extended refinance of Rs.2,620 crore under the SHG-bank linkage programme, registering an increase of 62 per cent over the previous year. The savings kept as deposits and loans outstanding position of SHG, as on 31 March

2008, revealed that both the number of savings accounts and amount of savings mobilised improved by 20 and 8 per cent, respectively. Similarly, the number of loan accounts and amount of loan outstanding registered a growth of 25 and 37 per cent, respectively. However, while savings per SHG declined by 11 per cent, loans outstanding per SHG increased by 10 per cent. The recovery position of banks with respect to their SHG portfolios revealed that, as on 31 March 2008, of the 329 reporting banks, 223 banks (68%) reported recovery more than 80 per cent. Agency-wise, 24 (out of 33), commercial banks 47 (out of 70) RRB and 152 (out of 226) co-operative banks reported recovery more than 80 per cent. MFI are increasingly providing financial services to the poor by raising funds from banks and their own resources for on-lending to SHG. MFI in India operate as NGO-MFI, non-profit Section 25 NBFC-MFI, co-operative MFI and for-profit NBFC-MFI. During 2007-08, 518 MFI were financed by banks to the tune of Rs.1, 970.15 crore, thus, registering a growth of 55 and 71 per cent in respect of number of MFI and amount disbursed, respectively. Total loans outstanding increased to Rs.2, 748.84 crore as on 31 March 2008, registering a growth of 73 per cent over 2006-07.

CONCLUSION

SHG-Bank linkage program has emerged as the biggest microfinance program in India enabling about 33 million poor households to gain access to microfinance facilities from the formal banking system. Over the years, it has become an accepted part of rural finance and a potential tool for human development. The process of forming and nurturing small, homogeneous and participatory SHGs enable the poor, especially the women from poor households, to collectively identify and analyse the problems they face in the perspective of their social and economic environment.

In India the micro-finance institutions have some regulatory restrictions like they cannot accept deposits. This makes them dependent on the government loans and donations for their working capital. If they are allowed to accept deposits from their customers then they will be able to generate their own sources of funds which they can disburse. This will enhance their lending capacity. Since borrowing is often riskier than saving for example, a woman could save or borrow to buy a sewing machine. If a child falls ill, savings could be tapped to pay for medicine; debt repayment might preclude medical treatment.

The growth in SHGs is very good in India but it is still not growing in comparatively under developed states like Jharkhand, Himachal Pradesh, Uttar Pradesh and Madhya Pradesh than in states like Maharashtra, Bihar, Assam and Rajasthan. These states with low growth but high need should be given more priority. As this is also related to literacy, more focus on education and awareness should also be given, like the Grameen Bank does, with its 16 decisions which all the women, taking loan, have to take. Further, there is need of an independent regulator who must monitor cases of abuse.

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