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Micro Finance Schemes in India: An Overview of Regulatory Scenario

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ABSTRACT

Micro Finance is an association that provides financial services to low income populations. This paper highlights the small loans, encouragement entrepreneurship and small business growth for economic development and self entrepreneurship for rural groups. This paper enhances the empowering women and rural group by providing financial assistance, nurturing financial self-determination and improving socio-economic standing. The microfinance organization in India provides important element in promoting financial insertion and supporting the livelihoods of millions. This paper covers a wide range of services like loan, credit, saving, insurance, remittance and other services.

Keywords: financial, assistances, entrepreneurs, service, banking, development and promote

INTRODUCTION

The Micro Finance schemes are key elements of financial addition, presenting small-value loans, insurance, and savings. It provides a renovating function in poverty eradication, women's empowerment and promotion free enterprise in rising economies. Microfinance is a foundation of financial assistances for entrepreneurs and small businesses scarce in contact with banking and connected services. It plans to elevate income standard and progress living values, substitute as an instrument for financial insertion and poverty improvement.

The access to credit for the poor from conventional banking is often constrained by lack of collaterals, information asymmetry and high transaction costs associated with small borrower accounts. Micro Finance has emerged as a viable alternative to reach the hitherto unreached for their social and economic empowerment through social and financial intermediation. In other words, micro finance or micro credit is a novel approach to 'banking with the poor. "The two main mechanisms for the delivery of financial services to such clients were: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based model, where several entrepreneurs come together to apply for loans and other services as a group. Over time, microfinance has emerged as a larger movement whose object is: "a world in which as everyone, especially the lower income classes and socially marginalized people and households have access to a wide range of affordable, high quality financial products and services, including not just credit but also savings, insurance, payment services, and fund transfers" (Peck Christen 2004: 2-3)

This approach has been very successfully tried in Bangladesh. Here, bank credit is extended to the poor through Self Help Groups (SHGs), Non-Government Organizations (NGOs) credit Unions, etc. Micro credit attempts to combine lower transaction costs with higher degree of repayments. It involves provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and thereby improve living standards. "Microfinance includes microcredit, the provision of small loans to poor clients; savings and checking accounts; micro-insurance; and payment systems, among other services" (Caramela, Sammi 2018) In operational terms, micro-credit involves small loans, up to Rs. 25000, extended to the poor without any collateral for under-taking self-employment projects. Such loans are mostly provided through micro finance institutions (MEIs). The most popular model of MFI is the Grameen Bank Model, developed originally in Bangladesh and replicated in various parts of the World. It is also popular in India. Under this model, non-government organizations (NGOs) promote self-help groups (SHGs) and provide adequate credit facilities to them. "Microfinance product and services in MFI include: 1) Savings,2) Microcredit, 3) Micro-insurance, 4) Micro-leasing and 5) Fund transfer/remittance. Microfinance services are designed to reach excluded customers, usually low income population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient" (Peck Christen 2004: 2-3)

Thus, in India, micro finance schemes have emerged as a major avenue for bringing the poor within the purview of the organized financial sector. Here NABARD (National Bank for Agriculture and Rural Development) has played a key role in the development and promotion of SHGs and other micro finance institutions and in providing refinance at special rates. "For many, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses; for others it is a way for the disadvantaged/less privileged to manage their finances more effectively and take advantage of economic opportunities while managing the risks. Critics often point to some of the ills of microcredit that can create indebtedness. Many studies have tried to assess its impacts" (Feigenberg, Benjamin 2010)

The Self-Help Group (SHG)-bank linkage programme was introduced in 1992 by NABARD. Now it is continued to be the main micro-finance model by which the formal banking system reaches the micro entrepreneurs (including farmers). Since its inception, it has proved its efficacy as a mainstream programme for banking by the poor who mainly comprise the marginal farmers, landless labourers, artisans and craftmen and others engaged in small business like hawking and vending in the rural areas. In all 498 banks (50 commercial banks, 96 amalgamated RRBs and 352 cooperative banks) are actively participating in the programme. As on December 31, 2017, bank loan of Rs. 50114 crore was availed by 30-51 lakh SHGs. The average bank loan availed of per SHG and per family amounted to Rs. 65924 and Rs. 4708 respectively. The outreach of the programme has enabled an estimate 427 lakh poor households to gain access to micro-finance from the formal banking system. The notable feature of the programme is the active women participation, i.e., more than 90% of the groups linked with banks are exclusive women groups. Despite significant progress of micro-finance in India, there are certain issues that need to be emphasized.

1) The coverage of poor families in SHGs is not adequate. Only 30% to 32% of poor families is covered in SHGs. Thus micro-finance institutions have tended to exclude a large number of poor families. Indeed there is often a presumption that moderately poor are less likely to default than those who are actually poor. Some significant reasons for this exclusion are lack of awareness, social exclusion of the poor and collusion of officials of Micro-finance Institutions with non-poor persons.

2) The present average amount of loan is just Rs. 4708 per poor family which is not sufficient to enable the poor to come out of the poverty line. "Microfinance can pay for itself. Subsidies from donors and government are scarce and uncertain and so, to reach large numbers of poor people, microfinance must pay for itself" (Helms 2006: xi)

3) The micro-finance institutions are currently only credit providers and are unable to provide other ser-vices like savings, insurance etc. which are critical in reducing vulnerabilities of the poor. "Families receiving micro-financing are less likely to pull their children out of school for economic reasons. As well, in relation to employment, people are more likely to open small businesses that will aid the creation of new jobs. Overall, the benefits outline that the micro-financing initiative is set out to improve the standard of living amongst impoverished communities" (Rutherford, 2009)

4) The existing savings and loan products are not sufficient to suit the requirements of the poor, namely consumption, housing, education etc. "Microfinance is the proper tool to reduce income inequality, allowing citizens from lower socio-economical classes to participate in the economy. Moreover, its involvement has shown to lead to a downward trend in income inequality" (Hermes, N. 2014: 202).

5) The growth of micro-finance has not been equal across regions. It would be clear from the available facts that the four states of Andhra Pradesh, Karnataka, Tamil Nadu and Uttar Pradesh together accounted for almost 70% of total SHGs credit linked and four-fifth of total amount of bank loan as on March 31, 2021.

6) The absence of quality agencies for social intermediaries is limiting not only the spread but also the sustainability of micro-finance. Capacity building of NGOs has become huge task. According to technology analyst David Garrity, "Microfinance and Mobile Financial Services (MFS) have provided marginal populations with access to basic financial services, including savings programs and insurance policies" (Garrity, David M. 2015:45)

7) While the rates of interest charged by MFIs sponsored by public sector bank or government agencies are subsidised (at around 9%), the rate of interest charged by MFIs sponsored by private sector banks (or those working in close collaboration of these banks) is very high (24 per cent or even more).

Inspite of the above problems cited against micro-finance in India; it can play an effective role in achieving the long-cherished objectives of poverty alleviation and rural development by 'credit-deepening' in rural India. Prof. C. H. Hanumantha Rao has pointed out that one of the major contributions of micro-finance is towards women empowerment providing women an opportunity to join the mainstream of development activities. In fact 90% of the SHGs linked with banks are exclusively women groups. This shows the SHGs have become vehicles of social change.

CONCLUSION

Microfinance refers to a wide range of financial assistances provided to individuals and small businesses those who lack access to usual banking. These assistances comprise micro-loans, insurances, investments, accounts, indemnity, payment, allowance, savings and other financial services, catering mainly to the socio-economically weaker sections of society. Microfinance provides to the financial assistance to low-income groups in the society. Microfinance plans to develop financial assistances access for underprivileged groups, particularly rural poor group, and marginalized women and to support self-sufficiency.

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