MICRO-FINANCE FOR RURAL TRANSFORMATION

Praveen Shukla

As per the Bharat Microfinance report 2015, there are 156 MFIs currently operating in 28 states, 5 Union Territories and 568 districts of India. The quality of loan portfolio has improved from consumption to income generation in proportion to 20:80 so does its gender and community diversification, women borrowers constitute 97 per cent of the total clientele of MFIs while SC/ST borrowers constitute and minorities constitutes 28 per cent and 18 per cent respectively.

The Syrian crisis has left many lessons to learn from, one of them being poor rural economic management. The successive droughts had forced people to flee from rural hinterland to urban area thus causing political turmoil which finally knocked at the doors of the rich Europe which is now offering money to thwart this migration. It reminds us of another interesting narrative; in 1935 Friedrich Engels candidly wrote that the science has proved that the pitiful conditions in the working-class quarters give birth to diseases which eventually spread into the affluent dwelling. As soon as this fact was established, he observed that "Societies were founded, books were written, proposals drawn up, laws debated and passed, in order to close the sources of the ever-recurring epidemics. The housing conditions of the workers were examined and attempts were made to remedy the most crying evils". This is how we have eradicated deadly diseases from the earth; the important factor was compulsion, compulsion of the rich to safeguard their interests and their well being. Another such scourge is poverty which needs to be eradicated at the similar scale, the poverty is universal in three continents of South America, Africa and Asia with its varied genesis and dimensions. As per the new estimate released by the United Nations, it will take around $3.5 and $5 trillion annually over the next 15 years for eradicating poverty. It is seen poverty is more prevalent in rural areas, the poor in rural area lack fundamental resources and opportunities which forces them to migrate from rural to urban center, thus choking them with their brute numbers.

In India, poverty is widespread, however in recent times absolute poverty may have reduced because of the geographical location, orthodox cultural norms, poor access to finance, dismal state of education and infrastructure etc its complete eradication is still elusive. The government is continuously taking initiatives to tackle the scourge of poverty through geographic area and sectoral development approach but it appears that these measures are not enough to arrest poverty. Initially the community development programme was introduced in the first five year plan using village as basic unit for development programme. In accordance with Gandhi's Gram Swarajya the industrial policy of 1948 and first five year plan had proposals for village and cottage industries including liaison for supply of raw material and sales of finished goods. The second five year plan based on Mahalanobis model was not different from its earlier version but the next big change came in terms of Panchayati Raj for which Gandhi in Harijan wrote "greater the power of panchayat better is for people". However, it is only after the mandate of 73rd Constitution (Amendment) Act, 1992, people's participation enhanced. The next

Year	Poverty Ratio (per cent)			Number of Poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	41.8	25.7	37.2	326.3	80.8	407.1
2009-10	33.8	20.9	29.8	278.2	76.5	354.7
2011-12	25.7	13.7	21.9	216.7	53.1	269.8

Source Percentage and Number of Poor Estimated from Tendulkar Methodology

Year	Poverty Ratio (per cent)			Number of Poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
1973-74	56.4	49	54.9	261.3	60	321.3
1977-78	53.1	45.2	51.3	264.3	64.6	328.9
1983	45.7	40.8	44.5	252	70.9	322.9
1987-88	39.1	38.2	38.9	231.9	75.2	307.1
1993-94	37.3	32.4	36	244	76.3	320.3
2004-05	28.3	25.7	27.5	220.9	80.8	301.7

Source Percentage and Number of Poor Estimated from Lakdawala Methodology

important milestone was twenty point programme where massive impetus was given to programmes like national rural employment programme and rural landless employment which in turn, provided employment to 2.07 lakh rural household with clear drinking water and electrification reached to 12,1,005 villages. After twenty point programme the Integrated rural development programme was launched to raise the income-generation capacity of target groups among the poor. Apart from these programmes, banks were nationalised in 1969 to provide the capital access to rural population. In 1974 a differential rate of interest scheme with loans at 4 percent to the poor were launched but it has limited success. During 1971 to 1996 bank credit in the rural areas increased by nearly 24000 crores and deposits increased by about 41000 crores, so both rural credit and deposits got almost doubled during this period. This had effectively reduced rural poverty as subsequently revealed by the Lakdawala methodology rural poverty fell 39.1 per cent in 1987-88 to 37.21 per cent in 1993-94 , after the economic liberalisation it further declined from 37.21 per cent to approx 27.5 per cent in 2004-05. But this jubilation ended with the census of 1981 which came up with surprise, it revealed that there is net increase of 13.56 crore population from 1971 i.e 24.75 per cent in ten years. This suggests India added another quarter to its population and translated into decrease in land per person, thus putting more pressure on rural resources, 1991 census repeated similar story with similar growth of 25 per cent decadal growth in the population.

The rise in population made it obligatory for the government to increase employment opportunities in order to keep poverty at bay. Recently released socio economic and caste census (SECC) 2011 suggests India still resides in her villages as said by Mahatma Gandhi, nearly three fourth of its population i.e. 17.9 crore households live in India with paltry income of five thousand rupees a month. The data also provides the insights of deprivations in the rural part of India.

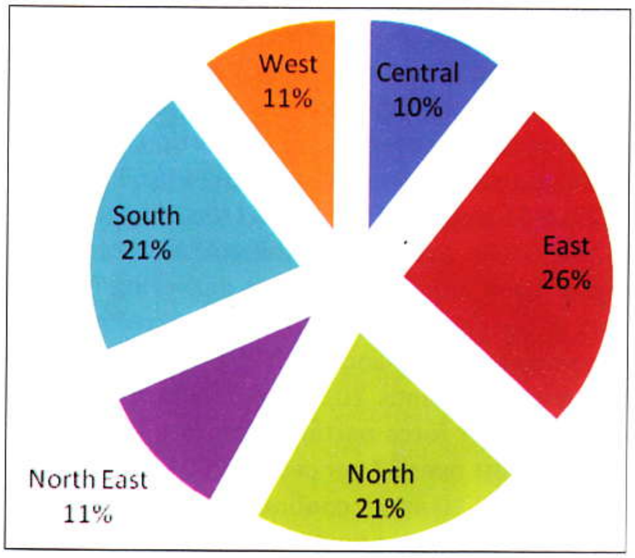
The programme like IRDP used the banking channel to direct assistance, which was a combination of credit and subsidy to those below the poverty line but they were not enough. Also the IRDP targets were compellingly achieved with several relaxations in eligibility criteria, procedures, rate of interest, collateral for the loan etc. Hence there was a pressing need for a system which strengthens rural credit delivery system and free from public spending on recurrent loan waivers and write-offs. The regulatory mechanism paved the way for this credit mechanism, in March 1980, RBI advised commercial banks to achieve the target of priority sector lending at 40 percent of aggregate bank advances by 1985. Sub-targets were also specified for lending with 18 per cent to agriculture, 10 per cent to the weaker sections and rest to other sectors like housing and micro and small scale industries. This compulsion forced commercial banks to create a supplementary credit delivery mechanism to reach out to rural agri enterprises and individuals, work to out the same by encouraging non-governmental organisations to act as facilitators and intermediaries. The decade of eighties is credited for seeding microfinance in India, this was the time when success stories of microfinance started pouring out from Bangladesh at the same time the regional forums like Asian and

Pacific Regional Agricultural Credit Association was pressing for examining existing SHGs of the rural poor for credit delivery and then there was sudden break down of large cooperative which were organised by Mysore Resettlement and Development Agency (MYRADA), the efforts were made to form SHG from these disintegrated cooperatives. After signing agreement NABARD worked on these 300 SHG and presented draft report at 8th Executive Committee Session of APRACA in 1987. The startling exposure from the action research project of MYRADA, gave NABARD a model to reach out to rural poor thus in consultation with the Reserve Bank of India (RBI), Commercial Banks and NGOs, launched a pilot project in 1991–92 for linking of SHGs with banks. The linkage programme got boost in 1996 when RBI directed banks to include linking of SHG in priority and in Union Budget of 1998-99 government itself regarded as national priority, this ushered the era of microfinance in India. Unlike Bangladeshi predominant model of Joint liability groups, the Self-Help Group Bank Linkage became the most dominant model in India in terms of both number of borrowers and loans outstanding. In self help group model the members pool their small savings regularly at a prefixed amount on daily or weekly basis then SHGs provide loan to members for a period fixed. SHGs group of 15 to 20 people formed from homogenous groups and common social background. The Grameen model is most widely known model, here the groups are formed voluntarily consisting of five borrowers each. The lending is made first to two, then to the next two and then to the fifth. These groups of five meet together weekly, these are joint liability group and the third most preferred model in India is the NBFC-MFI, it is profit driven route which is guided by the sense that since the poor are bankable and lending to them can be commercially viable it is not necessary to depend on low cost funds to lend them. They mobilise their resource from equity investors and lenders and at advance side the set up field offices through which credits are disbursed to beneficiaries via loan officers who also ensure the collection. The NGOs-MFI model is a intermediation process by the NGOs to promote the linkage between banks and SHGs for savings and credit.

As per the Bharat Microfinance report 2015,

State	**No of MFI**	**Region**
Andhra Pradesh & Telangana	**7**	South
Assam	**9**	North East
Bihar	**5**	East
Delhi	**4**	North
Gujarat	**7**	West
Haryana	**1**	North
Jharkhand	**4**	East
Karnataka	**14**	South
Kerala	**4**	South
Manipur	**6**	North East
Maharashtra	**13**	Central
Madhya Pradesh	**7**	Central
Odisha	**13**	East
Punjab	**1**	North
Rajasthan	**5**	West
Tanil Nnadu	**21**	South
Uttrakhand	**1**	North
Uttar Pradesh	**8**	East
West Bengal	**26**	East
Total	**156**	All India

Legal Form	No. of MFI
Society	44
Trust	15
Sec. 25 Company	18
Macs or Cooperative	9
NBFC	70
Total	156



Source: Bharat Microfinance report 2015

there are 156 MFIs currently operating in 28 states, 5 Union Territories and 568 districts of India. There are more than 12,221 employees who are reaching to 3.7 crore clients with an outstanding loan portfolio of 48,882 crore which includes a managed portfolio of 9,854 crore. The quality of loan portfolio has improved from consumption to income generation in proportion to 20:80 so does its gender and community diversification, women borrowers constitute 97 per cent of the total clientele of MFIs while SC/ST borrowers constitute and minorities constitutes 28 per cent and 18 per cent respectively. The average ticket size of micro-loan is approximately INR 1300 with a remarkable growth of 33 per cent over the previous years suggesting healthy recovery after Andhra adversity. In terms of model Non Banking Financial Companies-MFIs are most aggressive in reaching out to clients with almost 85 per cent of clientele and 88 per cent of outstanding portfolio NGO MFIs are distant second in this regard. There is marked increase in the proportion of urban clientele from 44 per cent in 2013-14 to 67 per cent in 2014-15 suggesting NBFC MFI focusing primarily in the Urban Areas while the NABARD or public sector bank led NGO MFIs are delivering in rural part of the country. The growth of microfinance is in complete consonance with the the ILO's Global Employment Trends 2013 report which reported India's labour force participation rate for women fell from just over 37 per cent in 2004-05 to 29 per cent in 2009-10 and it confined to particular areas , the microfinance growth is concentrated in the south and east of India with higher growth rates in the Northeastern and Central regions.

Taking leaf from the Andhra incident the microfinance industry was complying to the regulations but there were enough gaps in providing client protection and code of conduct as a credible credit delivery mechanism government displayed a leap of faith in the sector by setting up MUDRA for refinancing and regulating the microfinance sector in Budget for year 2015-16. This articulates the fact that microfinance is a strategic tool for the financial inclusion with call to MFIs to facilitate opening of bank accounts by their existing customers in Pradhan Mantri Jan Dhan Yojana. This is a win win situation for MFIs and banks, MFIs can save on their transaction cost with saving accounts and most of their transaction will be consolidated within banking system and their client will benefit from the JDY, while government will reach out to the unbanked. The facilities like ECS and debit card will be quite easier than the biometric card for loan disbursement. As 97 per cent of all MFI customers are women if we peg the number of women client not having bank account to be 3 crores then bank can get another 3 crore accounts of their spouses and children, while MFIs will diversify their work profile by adding product range offered by the bank and extending due diligence for banks in case of overdraft facilities. With merely 40000 rural bank branches it will be difficult for banks to serve the all JDY beneficiaries in 6 lakh villages so MFIs can also vouch for banking correspondent of the banks.

Some of the MFIs are already engaged with banks as their banking correspondents. The BCs carries out a full range of transactions on behalf of the bank for which they are paid commissions by banks initially opened for only NGOs, MFIs, NBFCs and Post Offices, it now extended to include individuals, local grocery shops, and for-profit companies, for MFIs Banking Correspondents is already a success story. With new profile and new avenues microfinance will be at helm of financial inclusion and poverty eradication initiative of government in coming days.

(The author is research fellow with Centre for Civilisational Studies, New Delhi)