CHAPTER 1:

CONCEPTUAL FRAMEWORK

As the world entered into a new century, the developing countries are no more content with what the advanced countries would dole out as developmental assistance; these are one and all claiming their rightful place under the sun. No country, not even a low development country, is prepared to accept poverty and anti-growth as facts of life or situations preordained, and are in haste to bridge the growth arrear and attain a reasonable level of economic development. The entire third world including many of the low developed and developing countries, is in fact clamoring for economic growth and to narrow down the arrears in such growth in relatively much shorter time. Many of these countries had many years of poor growth or economic stagnation and now want to bridge the age-old gap in economic growth by energizing a period of accelerated development. Urbanization has long been associated with industrialization, indeed they have been considered synonymous. But manufacturing activities in cities are of relatively recent vintage. Cities evolved originally as market or trading centers and have traditionally been known more for their service sector activities than for industry. The situation is now turning full circle. In contrast to the early days of industrial revolution, when the proportion of employment in the urban service sector usually declined with rapid industrialization and urbanization, in the less developed countries today services have intended to expand as fast as industry so that process of urbanisation is a movement of people to both service and industry from the agricultural activities. Poverty is one of the persistent problems prevalent in the developing and underdeveloped countries of the world. According to the
World Bank report (2008) about 1.4 billion population in developing countries is living on less than US $1.25 a day in 2005. This clearly highlights that poverty is widespread across developing world. The United Nation Organization announced Millennium Development Goals (MDGs) in 2008, and the first of eight critical goals is to eradicate poverty by the year 2015. Most of the developing and underdeveloped countries have recently been pursuing various policies and programs to eradicate poverty, an important impediments to sustainable economic development. Among these policies one of the most important and effective one is Micro-finance. Micro Financing has been initiated in all the countries having poverty- stricken people. Micro Financing serves not only the goal of poverty reduction but also other two Millennium development goals such as, women empowerment and increase the literacy rate among women. Recently micro-finance is emerging as one of the powerful instrument for poverty alleviation in the low income countries of the world. The year 2005 was announced as the year of Microfinance by United Nations, and poverty declined from 50% in 1981 to 25% in 2005, i.e., 500 million of poor people fell during this period. Yet even at this rate, about a billion people will still live on less than $ 1.25 a day in 2015, and many of those who escaped $1.25 a day in 2015, and many of those who escaped 1.25-a-day poverty across 1981-2005 would still be poor by the standards of rich or even middle-income countries.

1.1 Meaning and Definition of Micro-Finance

It is well known fact that in low income countries poor lack credit and they are unable to get sustainable income because they cannot start their own small business which can ensure sustainable income to fulfill their basic needs. They are unable to get loan from formal institution and cannot borrow from informal institution like, traditional money lenders, who charge high
rate of interest. So micro-finance is a scheme implemented through self help groups to provide financial assistance while taking their difficulties into account. Micro-finance is a financial service of small quantity provided by financial institutions such as banks, NGOs etc, to the poor. These financial services may include savings, credit, insurance, leasing, money transfer, equity transfer etc, i.e., any type of financial service provided to customer to meet their normal financial needs. In the Indian context, terms like “small and marginal farmers”, “rural artisans” and “economically weaker sections” have been used to broadly define micro-finance customers. In other words, microfinance is defined as provision of thrift, credit, and other financial services to poor in rural, semi urban areas to establish a tiny business so that they can earn sustainable income and get themselves out of poverty. According to consultative group to assist poor (CGAP) “ microfinance is supply of loans, savings and other financial services to the poor, including working capital loans, savings and other basic financial services to the poor, including working capital loans, consumer credit, pension, insurance and money transfer services. Moreover it is defined as provision of thrift, credit and other financial services and products of very small amount to poor in rural, semi urban and urban areas for enabling them to raise their income level and living standard. More broadly, micro-finance refers to a movement that envision a world, where low income households have permanent access to a range of high quality financial services to finance income producing activities, build assets, stabilize consumption, and protect against risk. These services are not limited to credit, but include savings, insurance, and money transfer.
1.2 Micro Finance in India

New micro finance approaches have emerged in India over the past decade, involving the provision of thrift, credit and other financial services and products, with the aim to raise income levels and improve living standards. The most notable among these micro finance approaches is a nationwide attempt, pioneered by Non-Governmental Organizations and now supported by the state, to create links between commercial banks and NGOs and informal local groups. Microfinance through Self Help Groups (SHGs) is propagated as an alternative system of credit delivery for the poorest of the poor groups. Recognizing their importance, both Reserve Bank of India and National Bank for Agriculture and Rural Development (NABARD) have been spreading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies and systems. This study attempts to give a comprehensive overview of all aspects of micro finance in India, its essence, the different institutions involved in its promotion, the different modes of delivery, its weakness and the challenges that lie ahead, the programme of micro finance that has made rapid strides in India. Micro finance is a participative model that can address the needs of the poor especially women members of the SHG save regularly, to minimize the financial burden. There are limits to the amount lent and the repayment is typically over 50 weeks.

1.3 Profile of Micro Finance in India

In terms of Poverty it is estimated that 350 million people live Below Poverty Line. The key components of micro finance are:

a) Micro Financing translates to approximately 75 million households.

b) Annual credit demand by the poor in the country is estimated to be about Rs 60,000 crores.
c) A cumulative disbursement under all micro finance programs is only about Rs. 5000 crores.
d) Total outstanding of all micro finance initiative in India estimated to be Rs. 1600 crores.
e) Only about 5% of rural poor have access to micro finance.
f) Though a cumulative of about 20 million families have accepted access.
g) While 10% lending to weaker sections is required for commercial banks, they neither have the network for lending and supervision on a larger scale or the confidence to offer term loan to big micro finance institutions.
h) The non poor comprise of 29% of the outreach.

1.4 Key Players of Micro Finance System

Following key players play an important role in micro finance system in India-

1.4.1 National Bank for Agricultural and Rural Development (NABARD):

1.4.2 Reserve Bank of India

1.4.3 Self Help Group

1.4.4 Micro Finance Institutions (MFIs)

1.4.5 Non Government Organizations (NGOs)

1.4.1 National Bank for Agricultural and Rural Development (NABARD):

NABARD is an apex institution, accredited with all matters concerning policy, planning and operations in the fields of credit for agriculture and other economic activities in rural areas in India. NABARD was established in 1982 as a Development Bank, in terms of the Preamble of the Act, “for
providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto”. The corporate mission set by NABARD for making available microfinance services to the very poor envisages coverage of one third of the rural poor through one million SHGs by the year 2006-07. In November 1998 a high-powered Task Force on Supportive Policy and Regulatory Framework for Micro finance (henceforth referred to as the Task Force) was set up by NABARD at the instance of RBI. The objective of the Task Force were among others, to come up with suggestions for a regulatory framework that brings the operations of the Micro finance Institutions into the main stream, to access the possible role of self-regulatory organizations and to explore the need for a separate legal framework for micro finance. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with:

i. Providing refinance to lending institutions in rural areas.

ii. Bringing about or promoting institutional development, and

iii. Evaluating, monitoring and inspecting the client banks

Besides this pivotal role, NABARD also:

- Acts as a coordinator in the operations of rural credit institutions.
- Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development.
- Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
Help the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.

Acts as regulator for cooperative banks and RRBs.

**Major Activities**

- Preparing of Potential Linked Credit Plans for identification of exploitable potentials under agriculture and other activities available for development through bank credit.
- Refinancing banks for extending loans for investment and production purpose in rural areas.
- Providing loans to State Government/Non Government Organizations (NGOs)/ Panchayati Raj Institutions (PRIs) for developing rural infrastructure.
- Supporting credit innovations of Non Government Organizations (NGOs) and other non-formal agencies.
- Extending formal banking services to the unreached rural poor by evolving a supplementary credit delivery strategy in a cost effective manner by promoting Self Help Groups (SHGs).
- Promoting participatory watershed development for enhancing productivity and profitability of rain fed agriculture in a sustainable manner. On-site inspection of cooperative banks and Regional Rural Banks (RRBs) and off-site surveillance over health of cooperatives and RRBs.

**1.4.2 Reserve Bank of India**

The earliest reference to micro credit in a formal statement of monetary and credit policy of RBI was in former RBI President Dr. Bimal Jalan’s Monetary and Credit Policy Statement of April 1999. The policy attached
importance to the work of NABARD and public sector banks in the area of micro credit. The banks were urged to make all out efforts for provision of micro credit, especially forging linkages with SHGs, either at their own initiative or by enlisting support of Non-Government Organization (NGOs). The micro credit extended by the banks is reckoned as part of their priority sector lending, and they are free to device appropriation loan and saving products in this regard (Y.V. Reddy, 2005). Considerable work had been done by RBI in this sector since 1991. In 1991-92 a pilot project for linking up SHGs with banks was launched by NABARD in consultation with the RBI. In 1994, the RBI constituted a working group on SHGs. On the recommendation of the SHGs would be reckoned as part of their lending to weaker sections and such lending should be reviewed by banks and also at the State Level Bankers” Committee (SLBC) level, at regular interval. Banks were also advised that SHGs, registered or unregistered, which engaged in promoting the saving among their members, would be eligible to open savings bank accounts with banks irrespective of their availment of credit facilities from banks.

Functions:
The functions are classified into three heads, viz.,

i. Traditional functions
ii. Promotional functions and
iii. Supervisory functions.

The detailed account of these heads is given below:

i. **Traditional functions**
   - Monopoly of currency notes issue.
   - Banker to the Government (both the central and state)
   - Agent and advisor to the Government.
- Banker to the bankers.
- Acts as the clearing house of the country.
- Lender of the last resort.
- Custodian of the foreign exchange reserves.
- Maintaining the external value of domestic currency.
- Controller of forex and credit.
- Ensures the internal value of the currency.
- Publishes the Economic statistical data.
- Fight against economic crisis and ensures stability of Indian economy.

ii. Promotional functions

- Promotion of banking habit and expansion of banking systems.
- Provides refinance for export promotion.
- Expansion of the facilities for the provision of the agricultural credit through NABARD.
- Extension of the facilities for the small scale industries.
- Helping the Co-operative sectors.
- Prescribe the minimum statutory requirement.
- Innovation in the new banking business transactions.

iii. Supervisory Functions

- Granting license to Banks.
- Inspects and makes enquiry or determine position in respect of matters under various sections of RBI and Banking regulations.
- Implements Deposit insurance scheme.
- Periodical review of the work of the commercial banks.
- Giving directives to commercial banks.
- Control the non-banking finance corporation.
 Ensuring the health of financial system through on-site and off-site verification.

1.4.3 Self Help Groups

Self-Help Group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic backgrounds; voluntarily coming together to save regular small sums of money, mutually agreeing to contribute to a common fund and to meet their emergency needs on the basis of mutual help. The group members use collective wisdom and peer pressure to ensure proper end use of credit and timely repayment.

The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus. SHG’s were started and formed in 1975. The establishment of SHGs can be traced to the existence of one or more problem areas around which the consciousness of rural poor is built and the process of group formation initiated. SHG are considered a new lease of life for the women in villages for their social and economic empowerment. SHG is a suitable means for the empowerment of women. Since SHG’s have been able to mobilize savings from persons or groups who were not normally expected to have any „saving‟ and also to recycle effectively the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit needs of the poor (NABARD, 2004). The main characteristics of SHGs are as follows:

  - The ideal size of an SHG is 10 to 20 members. (In a bigger group, members cannot actively participate).
  - The group need not be registered.
From one family, only one member. (More families can join SHGs this way).

The group consists of either only men or of only women. (Mixed groups are generally not preferred).

Women’s groups are generally found to perform better.

Members have the same social and financial background. (Members interact more freely this way).

Compulsory attendance (Full attendance for larger participation).

**Functions of SHGs**

The following are the main functions of SHGs:

- The amount may be small, but savings have to be a regular and Continuous habit with all the members. „Savings first-Credit later“ should be the motto of every group member.
- The savings to be used as loans to members. The purpose, amount, rate of interest, etc. to be decided by the group itself. Enabling SHG members to attain loans from banks, and repaying the same.
- Every meeting, the group will discuss and try to find solutions to the problem faced by the members of the group.

**Milestones in SHG- Bank Linkage Program**

- 1993 Introduction of bulk lending scheme to NGOs by NABARD
- Studies on transaction cost conducted by external experts 1994
- Extension of policy support by RBI-beyond Pilot Phase.
- Extension of support for capacity building of NGOs by NABARD.
- 1995 Setting up a working group on NGOs and SHGs to assess ground realities and identify operational issues in implementation of the programme.
Extension of revolving fund Assistance to Federation of SHGs by NABARD.

1996 Mainstreaming SHG-Bank linkage by banks RBI and NABARD notifications.

**SHG’s tackle operational issues by:**

i) Documentation, ii) Defaulters, iii) Size of the group, and iv) Service Area

SHG”s organized National level training consolation meets in 1997 focusing on:

- Thrust on trainers training.
- Carried out first experiment of RRBs as Self-Help Promoting Institution (SHPI).
- Up scaling training and awareness programs by NABARD and the banking system.
- Documentation of rating/grading practices for SHGs appraisal, Set up task force on supportive regularities and policy framework.
- Refinance requirements outgrow CFSF use of NABARD normal resources.
- Extension of RRB-SHPI-experiment to two more RRBs.
- Crystallization of NABARD”s vision and mission.
- Building partnerships with governments.
- Deregulation of interest rates in SHG lending
- Emphasis on studying documentation and dissemination.
- Provision of promotional grants to NGO”s for SHG.
- In 2000 there was a thrust on widening the range of SHPI. SHG credit linked crossed 1, 00,000.
- RBI advises banks to finance Microcredit organizations.
- Emphasis on flooding market with quality SHGs by NABARD
Recognition of potential of farmers clubs as SHPI.
Roping in rural volunteers as potential SHPI.

II. Outcome of National consultation meet on training to redesign training modules, contents and methodologies

- Collaboration with Indira Gandhi National Open University-for commencing a distance education programme on women’s empowerment and SHGs.
- Evaluation studies on impact on SHGs. Setting a separate fund for scaling up the program -micro finance development fund.
- Technical Collaboration with GTZ, Germany commenced.
- In 2001 crossed 2,00,000 mark of credit linked SHGs.
- Thrust on backward states and districts.
- Extension of RRB-SHPI module to all RRBs.
- Diversifying capacity building approaches -videos, tools, visits.
- Accelerating promotional grant support to NGOs.
- Conceptualizing the use of technology in microfinance.
- Initiating efforts all developing a comprehensive management information system for SHG-Bank linkage program.
- Exposure visits to other micro finance initiatives for clients and banks.
- Launched studies to assess savings pattern for the poor.

In 2002 SHGs intensified training interventions through exposure visits including:

- Focus on backward states/provinces.
- Encouraging and facilitating internalization of rating and self – rating techniques.
- Increasing role of government in internalizing the concept.
- Launching a pilot in IT in micro finance.
- Launching studies to understanding the commercial prospects of SHG linkage

1.4.4 Micro Finance Institutions (MFIs)

There are two types of Micro finance Institutions:

- NGO-MFI
- NBFC-MFI

NGO MFIs are working on not for profit model. But because of problem of getting loan from bank in the absence of collateral, most NGO-MFIs have converted themselves into NBFC-MFI.

A NBFC-MFI is defined as non-deposit taking NBFC (other than a company licensed u/s 25 of Companies Act, 1956) with minimum net owned fund of Rs. 5 crore (for NBFC Registered in the North Eastern Region of the Country, it will be Rs. 2 crore) and having not less than 85% of its net assets as qualifying assets.

A range of institutions in public sector as well as private sector offers the micro finance services in India. Based on asset sizes, MFIs can be divided into three categories:

- 5-6 institutions which have attracted commercial capital and scaled up dramatically within last five years. The MFIs which include SKS, SHARE and Grameen Style program but after 2000, converted into for-profit, regulated entities mostly Non Banking Finance Companies (NBFCs).
- Around 10-15 institutions with high growth rate, including both News and recently form for-profit MFIs. Some of MFIs are Grameen Koota, Bandhan and ESAF.
The bulk of India’s 1000 MFIs are NGOs struggling to achieve significant growth. Most continues to offer multiple developmental activities in addition to microfinance and have difficulty accessing growth trends. Private MFIs in India, barring a few exceptions, are still fledging efforts and are therefore unregulated. They secure microfinance clients with varying quality and using different operating models. Regulatory framework should be considered only after the sustainability of MFIs Model as a banking enterprise for the poor is clearly established.

1.4.5 Non Government Organizations (NGOs)

A non-governmental organization (NGO) is a legally constituted, non-governmental organization created by natural or legal persons with no participation or representation of any government. In the cases in which NGOs are funded totally or partially by governments, the NGO maintains its non-governmental status by excluding government representatives from membership in the organization. Unlike the term "intergovernmental organization", "non-governmental organization" is a term in general use but is not a legal definition. In many jurisdictions, these types of organization are defined as "civil society organizations" or referred to by other names.

Objectives of NGOs are as follows:

- To promote Information collaborations and Constructive communication between NGOs, to develop effective partnership with each other.
- Networking for the access, sharing and dissemination of information
- Collaboration and Partnerships between NGOs themselves and with other organizations.
Electronic Net-working to strengthen community organizations by boosting its knowledge base and its ability to share information and experiences with strategic allies and other partners in relevant field.

Capacity building of grass root level NGOs, social workers through free online resources and information on a single platform.

To serve non-profit organizations, charities, grassroots and community groups, educational and research institutions.

Sharing of ideas among NGOs and development agents.

Avail free, easy and instant access to information.

The Non Government Organizations involved in promoting SHGs and linking them with the Formal Financial Agencies (FFAs) perform the following functions:

**Functions:**

- Organizing the poor people into groups.
- Training and helping them in the organizational, managerial and financial matters.
- Helping them access more credit and linkage with formal financial agencies.
- Channelizing the group effort for various development activities.
- Helping them in availing opportunities, widening the options available for economic development.
- Helping them in sustaining the group effort independently even after withdrawal of the NGO.
Cauterization of the Thesis:

The Thesis has been organized into six chapters. In nutshell, the gist of the chapter is as follows.

Chapter I
The conceptual framework and meaning of microfinance in India and is discussed in first chapter. Besides this, structure of SHGs under NABARD’s linkage programme and SGSY scheme has also been discussed in this chapter.

Chapter II
The overview of the microfinance in India is discussed in chapter second. The State-wise Savings of SHGs with Banks, State-wise loan distributed to SHGs and State-wise outstanding from SHGs has also been discussed in this chapter.

Chapter III
The review of literature related to impact and analyses of microfinance in India is discussed in chapter third. The review of literature included summary of research studies for identifying the areas of research.

Chapter IV
In fourth chapter, methodology of the study has been discussed. Basically this chapter explains in detail about the relevance of the adopted methodology, in addition the objectives of the study related to micro financing in India have been illustrated in this chapter.
Chapter V
In fifth chapter, importance of the study has been discussed. Basically this chapter explains in detail about the Growth Prospects, penetration of insurance services among rural poor people and Introduction of Technical Innovations etc. through the study.

Chapter VI
The investigation of region wise/state wise/agency wise micro finance dispersion in India has been discussed in chapter four. Region wise/Agency-wise analysis has also been done to bring out the real picture and scenario which is going on in India. This chapter provides advance knowledge of micro financing across different districts of the ion and their performance discussed in this chapter.

Chapter VII
In chapter seventh, conclusions, major findings of the study and summary are reported. This chapter also covers the testing of hypothesis. This chapter also focuses on identifying the future areas of research.