Indian Microfinance Sector: Innovation, Discipline or Death? A Case Analysis

Abstract

This paper discusses the issue of social responsibility of Indian microfinance institutions. The elementary principle of microfinance is that it encourages the desire to become successful entrepreneurs in most of the people, including destitute also. Microfinance as a tool of corporate social responsibility proposes several avenue for success. Most of the poor potential entrepreneurs can achieve successful micro credit business by partnering with giant financial groups. Taking the arguments of poverty alleviation into consideration, social responsibility and financial sustainability of microfinance institutions can go hand in hand together and even create win-win situation for both the poor and the institutions.

M.N.Parmar
Dean, Faculty of Social Work,
M.S.University of Baroda,
Vadodara 390002, Gujarat, India
Email: mnparmar@rediffmail.com

Kavita Sindhav
Assistant Professor,
Faculty of Social Work,
M.S.University of Baroda,
Vadodara 390002, Gujarat, India
Email: kavita.sindhav@gmail.com

Key Words

Microfinance, Self-Help Groups (SHGs), Joint liability groups, Micro Credit, NABARD, financial inclusion, Mysore Resettlement and Development Agency (MYRADA), Swayam Krishi Sangam (SKS), Bhartiya Samruddhi Investments and Consulting (BASIX), Grameen model, SHG-Bank linkage, PRADHAN

Citation: Parmar, M. & Sindhav, K. (2013). Indian Microfinance Sector: Innovation, Discipline or Death? A Case Analysis, *Ganpat University Journal of Applied Research In Social Sciences & Humanities, 2* (1&2), 43-50.

Introduction

The initiative of 1992 to make the traditional and formal banks to extend financial services to deprived sections through informal Self Help Groups (SHGs), has now blossomed into a “monolith” microfinance initiative. The linkage with banks has provided the members of the Groups the facility of not only pooling their thrift /savings and access to credit from the banking system, but also created a platform through which they could launch a number of livelihood initiatives and also facilitate the empowerment process.

While the first decade of the programme was meant to demonstrate the potential of SHGs to organise themselves and be instrumental in managing their own savings and extending emergent micro credit needs, the second decade laid emphasis on establishing the replica of the model across the regions, with focus on resource poor regions of the country. This decade also witnessed greater confidence among the financing banks to “own” up the programme as a potential business model thereby extending its outreach to the current level. The development planners including the Government of India and the State Governments also recognised the real potential of the SHG movement in development of the poor and it was made an essential ingredient of all poverty alleviation programmes of the Government. Even the private sector started realising the untapped potential of SHGs for deep penetration to the emerging rural markets.

The small beginning of linking only 500 SHGs to banks in 1992, had grown to over 0.5 million SHGs by March 2002 and further to 8 million SHGs by March 2012. From almost 100% of the SHGs linked to Banks at the pilot stage from southern states, the share of southern States in the total number of SHGs linked shrank to 46% by March 2012, while the share of eastern States (especially, West Bengal, Orissa, Bihar) shot up to over 20%. The third decade of the programme promises to be one of maturing the linkage programme with livelihoods support, lot more innovations in the product range offered through SHGs and path breaking reforms in leveraging technology to improve efficiency, while extending its outreach to more geographical regions, especially the most resource poor regions of the country. It is widely believed that the SHGs of the poor will be the vehicles leading the march of India’s emergence as a super economic power in the next decade (NABARD, 2012).

Micro Finance Institution (MFI)-Bank Linkage Programme

MFIs act as an important conduit for extending financial services to the micro finance sector in the country by raising resources from Banks and other institutions. MFIs could be (i) Non Government Organisation (NGO)/MFIs – registered under the Societies Registration Act, 1860 or the Indian Trusts Act, 1880 (ii) Cooperative MFIs – registered under the State cooperative Societies Act or Mutually Aided Cooperative societies Act or

Multi State Cooperative Societies Act (iii) Non-Banking Financial Company (NBFC) and Microfinance Institutions (MFIs) incorporated.

Information and Communication Technology (ICT) initiatives commenced by NABARD during the year 2011-12

Web Based Management Information System (MIS) for tracking Self Help group Promotion Institution (SHPI) partners:

A web-based application for monitoring the progress of all SHPIs partners provided with grant assistance by NABARD for promotion of SHGs has been launched by NABARD. The website (www.nabardshg.in) will help electronic updating of progress on real time basis by SHPI and help monitoring the progress of all SHPI projects. The SHPIs will be required to register themselves in the website and also gain access to guidelines, tool kits, study materials etc.

E-bookkeeping through handheld device

This is yet another ICT enabled bookkeeping endeavour for SHGs using handheld devices which are normally used for electronic ticketing. The device will capture the accounting and book keeping aspects of SHGs and generate number of reports which can be printed instantly. The data can also be transferred to a PC and reports can be generated. SHG members can know their savings, loan outstanding, bank balance etc. It is being implemented on a pilot basis in Uttar Dinajpur district of West Bengal.

Enabling micro enterprises and facilitating livelihoods

Sulochana Mahila SHG in Silora Panchayat in Rajsathan is one of fighting against all odds and making a mark as poor rural women grooming as real entrepreneurs. The composition of this group in itself is unique as it consists of Jats, Brahmins and Baniyas working together for common good. Their village being very backward with not many natural endowments to bank upon, they had limited livelihood options to resort to supplement their income. The SHG started grinding small quantities of spices like turmeric, coriander and red chillies and marketing the powder in the local market. With the scale of operation being tiny and without resorting to technology, their profit margins were meagre and market highly tilted against them. With members given technical training in agro-processing and a larger loan the group is now engaged in sorting, cleaning, processing, weighing, packing and marketing functions and together they could service the local markets of Ajmer and Pushkar and soon their turnover started showing a steady upward leap. Today, every member of the Group earns atleast 2500 Rs.p.m. from this group activity while the consumers are assured of quality products.

Kamadhenu – Joint Liability Groups (JLGs) of Women show the way

This is a unique success story of how groups of poor rural women can transform the economy of a whole region. In early 2011, the Mandal Mahila Samakhya (Block Level Federation of women SHGs) MMS in Chittoor District of Andhra Pradesh were deliberating on ways to improve their economic conditions. They realized that though there is heavy demand for milk, the production was lagging for want of supply as well as processing facilities. The State Government agreed to provide enough number of Bulk Milk Chilling Units to be operated by the MMS in the district provided they could arrange production and procurement of milk from the area. The next question was how to induct more number of milch animals into the area. At the instance of NABARD, they agreed to form Joint Liability Groups of Women members of SHGs of Federation to seek and obtain bank loans for purchase of milch animals. NABARD also agreed to kick start the programme on pilot basis by providing a loan of 5 crore for lending to these JLGs. Each member of the JLG was to be given loan for purchase of a dairy unit consisting of two milch animals each on the basis of the group guarantee. The State Animal Husbandry Department agreed to extend the necessary animal health and artificial insemination facilities to the dairy farmer members of MMS.

Mobile Based Accounting system for SHGs

NABARD has initiated a pilot project on SHG Bookkeeping project for 100 SHGs in Tamil Nadu, using mobile handsets. The application is expected to help SHGs to maintain their financial transactions electronically in the local language and allows ease of monitoring to all stakeholders. SHG transactions are entered through the mobiles owned by SHGs .Besides the financial transactions, attendances etc. are also captured through this mechanism. The other stakeholders including SHPI /Bank /NABARD could generate MIS report on a regular basis through a web access or through automated e-mail system. SMS updates are sent to every member of the group on weekly basis to ensure smooth running of the group.

Tablet PC Based Accounting system for SHGs

This is a web cum tablet enabled SHG bookkeeping solution being piloted in 100 SHGs in Maharashtra state. The tablet will be used by field staff of NGOs to maintain and update SHG's data and it would facilitate the monitoring of SHGs. SHG can

Also access copies of financial transactions, final accounts etc. on payment of nominal fees. The pilot also intends to work out a revenue model for such field staff. Various graphical as well as analytical reports can be generated which helps to monitor the particular SHG at micro level. All the SHG members and cooperative bank personnel who have promoted the groups have been trained and have started using the Tablet.

Once the project was launched in 2011, the response was beyond the expectations of the planners. By January 2012, as many as 12000 dairy units were financed under this initiative through over 2500 JLGs of women in the district involving an estimated bank loan of nearly Rs. 75 crore. The milk procurement in the area is estimated to reach 5 lakh litres per day per MMS by December 2012 from a little over 2 lakh litres per day at the start of the programme a year back. The poor rural women in Chittoor District have demonstrated what they can achieve if necessary support is extended to them. The story of this transformation has the potential to become another "Amul" and needs to be replicated in other districts of the State.

NABARD as Facilitator of Microfinance

Besides, conceiving the SHG-Bank Linkage Programme two decades back, NABARD had assigned to itself the role of a facilitator and a mentor of the initiative. The focus was on bringing in various stakeholders on a common platform, building capacity among the stakeholders to take the movement forward while extending 100% refinance to all banks participating in the programme. A large number of seminars, workshops and training programmes were organised to create awareness about the microfinance programme among all the stakeholders – the bankers, the Government agencies, the NGO partners and more importantly the SHG members. The NGO sector who played the key role of organising and nurturing the SHGs as the Self Help Promoting Institutions – later joined by many others including the rural financial institutions, Farmers Clubs, etc. – were encouraged by way of promotional grant assistance by NABARD for taking up such work. The phenomenal growth of SHG-Bank linkage programme during the last 20 years owe a great deal to these promotional efforts actively supported by NABARD and participated by the stakeholders. The rapid growth of the SHG linkage programme and its success in taking financial services to the poor, led to its recognition as the most important tool for financial inclusion – the main focus of the XI Five Year Plan. Simultaneously, efforts were also on to experiment innovative initiatives in improving the efficacy and reach of the programme with the involvement of all microfinance practitioners facilitated by NABARD.

Roots of microfinance in India

Indian microfinance had come of age from the early steps taken in the later part of the decade of 1990s. While the roots of what is known today as microfinance is usually traced to the establishment of the Shri Mahila Sewa Sahakari Bank) in 1974, the growth picked up only in the new century. Mysore Resettlement and Development Agency (MYRADA) was seen as one of the early innovators of the concept of self-help groups (SHG). 1 The concept had emerged in 1984-85, but it was only after the National Bank of Agriculture and Rural Development saw the merit in this model of microfinance that it was accepted as a predominant model of achieving financial inclusion, by the Government agencies.

Models of Microfinance

The Grameen model was inspired by the Grameen Bank of Bangladesh. This model was supply-driven and grew fast. Between 1996 and 2010, organizations following the Grameen model had shown the fastest growth in terms of number of clients. The main features of the Grameen methodology were as follows:

Groups of 5, and centres containing 6-8 groups were formed as a unit. The group had to maintain financial discipline.

- Loans were given on a step-up basis, and it was necessary for all the members to take loans.
- Default was not tolerated; social pressure was used in recovery.
- The interest rates were relatively high, ranging up to an effective interest rate around 38 percent per annum.
- Break-even points occurred faster in areas where other Grameen replicators had already done some business, as the market development costs were borne by the first mover.
- Most loans were offered for a year. The design of the loans was simple, and the instalments were due every week. The loans were given in multiple of Rs. 1,000 for duration of 26 and 52 weeks.

Self Help Groups

The country had a wide variety of SHGs with diverse parentage. Unlike Grameen, where the organization that formed the groups, also lent, in case of SHGs, the promoter of the groups could be distinct from the lender. Typically, the promotion of SHGs was done by a Non-Government Organization (NGO). The main attributes of SHGs were as follows:

- SHGs started with a group of 10-20 women who met regularly. They started with savings range between Rs. 10 to Rs. 50 depending on the level of monetization of the activities carried out by the women and the geography.
- Credit activity started only after six months of stable savings operation and “internal lending”. Everytime the women met, savings were collected and these amount were lent within the group to a person in need.
- Banks other microfinance institutions linked the SHGs after they passed the “probation” of six months.
- The repayment rates at the client level were not as high as that of the Grameen groups. The cost of funds from the Bank could be near Prime Lending Rates (PLR) which ranged between 10-15 percent per annum depending on the monetary and fiscal situation.
- Andhra Pradesh was the leading state in the SHG Bank linkage model.

In the early years, when the SHG movement was growing slowly (only about one lakh groups in the whole country till 1999), several Indian development workers tried out an alternative. Inspired by the example of Prof.Mohammed Yunus of Bangladesh, they began to carry out direct microfinance activities from their NGOs since the 1990s. In this model, NGO raised loans from an agency like the Rashtriya Mahila Kosh or Small Industries Development Bank of India (SIDBI) and lent to poor women. In this model too, women were asked to form groups, at two levels. First, five women in a neighbourhood would come together, and though each would borrow individually from the microfinance institutions (MFIs), they would all guarantee repayment of each other's loans. Up to eight such Joint Liability Groups (JLGs) would come together at a centre (a common place in the village) for a weekly meeting at the same time, same place. All financial transactions are done at the centre meeting and even new loans are approved and disbursed there.

Poor people in India take loans from several sources- friends, family, relatives, moneylenders, landlords, big farmers and traders. Over the years, the government has tried to replace this informal, high interest rate sources with formal lower interest rate sources. This effort had begun with the forming of agricultural credit cooperatives in the early 1990s and continued after independence when the Government asked the State Bank of India to open 400 upcountry branches in 1954. Indira Gandhi nationalized all major banks in 1969 to expand credit to agriculture in the wake of the Green Revolution and in 1976 set up Regional Rural Banks after moneylenders were banned during the emergency. These efforts at reaching credit to poorer people were not very successful. In response to this decline, Non-Government Organizations land MFIs like MYRADA and PRADHAN tried an innovation in the form of SHGs.

In the MFI model, the MFI typically borrows from a bank at 12-14 percent and lends to the women at 24-30 percent. The interest rate appears high because the loan size small and the transaction cost of forming the JLGs and the centre and going to meet a borrower many times a year for each loan, is borne by the MFIs.

It needs to be recognized that commercialisation of microfinance has led to an increased interest in reasserting the social developmental role of microfinance. Many efforts are on to develop tools and methods to assess the social performance of MFIs as also to ensure that MFIs remain socially responsible. Interestingly, most such efforts are driven by the investors who want to establish that their investments have gone in to poverty focused and sustainable microfinance ventures. Compared to the conventional impact studies that demand costly and elaborate research plans, some of the social reporting methods are simple and easy to administer as the social aspects of microfinance are filtered down to a minimum number of easily traceable indicators with a primary focus on 'outreach to the poor'.

When it rains, it pours...

The rumbling about excessive commercialization, multiple lending, and the stories of profits started coming out regularly. The sacking of Gurumani raised questions on the quality of governance of MFIs. The press was digging deeper into the histories of the organizations and the events appeared to be similar to the Krishna crisis.

In September, 2010, before the sacking of Gurumani, there was news in the local press of some MFI clients committed suicide. The reason was carrying stories of harassment of borrowers and public humiliation leading to suicides. The MFIs were known to be intolerant of default. A report by the Government-run programme, IKP, had documented more than 40 cases of suicides attributed to over-indebtedness from MFIs. Suicides as a phenomenon, was not new. In 1998, BASIX had commissioned a study to understand the phenomenon of large number of suicides of cotton farmers.

When reports of suicides came, the response of the MFIs was of denial. On the day the AP Government promulgated the ordinance, the press reported that

"17 out of some 30 poor in Andhra Pradesh committed suicides recently were SKS borrowers; Akula however said his company never resorted to unethical recovery practices or strong-arm tactic in recovering dues from borrowers were not defaulters of SKS and they would have been driven to suicides by other MFIs that lent money to the same borrowers."

In the concluding mark, it is again a unique situation where the survival of the key players in the sector are closely linked to the role its association plays. Microfinance Institutions Network (MFIN) can clearly play an aggressive role in promoting what it calls as "responsible lending".

References

NABARD (2012). Status of Microfinance in India, 2011-12 Micro Credit Innovations Dept, Mumbai.
NABARD (2000). NABARD and Micro finance 1999-2000, NABARD, Mumbai.
Kavita S. (2006, April 14). Micro Credit: Looking beyond group lending, The Hindu Business Line.
Burra, N., Deshmukh, R. J. & Murthy, R. K. (2005). *Micro- Credit, Poverty Empowerment: Linking the triad*, New Delhi: Sage Publication.
Mahajan, V. (2010, October 16). Micro loans, macro returns, Business Standard.
Sriram, M. S. (2010). Commercialisation of microfinance in India: A discussion of the emperor's apparel, *Economic and Political Weekly*, *45*(24), 65-74.
Sriram, M. S. (2012). The AP Microfinance Crisis 2010: Discipline or Death, *Vikalpa, 37* (4), 113-127.
www.mfiindia.org (Accessed on April 17, 2013).
www.sa-dhan.net (Accessed on April 16, 2013).