IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN : 2278-487X, p-ISSN : 2319-7668, PP 62-67
www.iosrjournals.org

Consolidating Micro Finance Activities In Tamilnadu – The Impediments And Imperatives

*****Ms J.Anudevi, ** S.Loganayagi, *** Dr.M.I.Saifil Ali
** Assistant Professor, Dhaanish Ahmed School of Management, Padappai, Chennai.*
*** Assistant Professor, Dhaanish Ahmed School of Management, Padappai, Chennai*
**** Professor & Director, Dhaanish Ahmed School of Management, Padappai, Chennai*

Abstract: *Microfinance has been promoted as an effective means of poverty reduction. Assuming that 80 percent of the world's population is without access to credit and savings facilities beyond that provided by family members, friends, or money lenders. Microfinance services are provided by banks, credit unions, and Microfinance organizations. These are generally for-profit and non-profit or non-governmental organizations (NGOs), private voluntary organizations legally chartered, where necessary, to lend money to poor people. Microfinance movement was influenced by women's movement, and is an integral part of the community economic development programmes. Microfinance interventions (MFIs) are expected to increase incomes, contribute to individual and household livelihood security, and change social relations for the better.*

SHGs play an important role in rural area in reducing poverty. There are more than 1000 SHGs in Tamil Nadu enjoying the benefits of microfinance. SHGs assist the rural people in financial needs it is a type of banking service that ensure that unemployed a low –income level people get the better opportunity and they start their livelihoods by themselves. Though the main aim of microfinance or SHG concept is to empower women and uplift their economic status, there has been apprehensions on the performance of SHGs and discontent on the effectiveness of microfinance scheme implementation. Research reveals that certain steps are needed to improve the implementation of micro finance schemes to the SHGs in the state.

This paper forms part of a research work undertaken by the authors on Consolidating Micro finance Activities in Tamil Nadu. It analyses the role of SHGs and the performance of Micro financing institutions to Self help groups in the state. Secondary data were gathered to meet the objectives of the study. Based on the analysis of data, inferences were made on the stated objectives of the study. The status and constraints of consolidating micro financing activities have been presented in this paper.

Key words: *Microfinance; microfinance interventions; self help groups; consolidation*

1.0 Introduction

Microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. Due to the broad range of microfinance services, it is difficult to assess impact, and very few studies have tried to assess its full impact. Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services." It is an economic development tool, whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counselling etc. In Tamil Nadu, the micro finance activities have gained momentum through the growth of Self help groups (SHGs). Most of the SHGs are run by women entrepreneurs. There has been scepticism about the functioning and operations of SHGs in the state. In this background, the paper attempts to study the nature and performance of SHGs and consolidate their activities for the common good of the groups, in particular.

2.0 Microfinance – The historical perspective

The history of micro financing can be traced back as far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty. Over the past centuries, practical visionaries, from the Franciscan monks who founded the community-oriented pawnshops of the 15th century to the founders of the European credit union movement in the 19th century (such as Friedrich Wilhelm Raiffeisen) and the founders of the microcredit movement in the 1970s (such as Muhammad Yunus and Al Whittaker), have tested practices and built institutions designed to bring the kinds of opportunities and risk-management tools that financial services can provide to the doorsteps of poor people.

Microfinance in India has witnessed dramatic growth in recent years. Between 2003 and 2007, India's 60 largest MFIs – which constitute 95% of all lending – experienced a cumulative annual growth rate of over 70 percent, and an average increase in return-on-equity from 2.2 percent to 33.2 percent. As of March 2007, these MFIs served nearly 10 million clients and held a cumulative outstanding loan portfolio of USD 769 million.

3.0 The Conceptual Framework and Literature Review

3.1 Microfinance – The concept and practice

The modern use of the expression "micro financing" has roots in the 1970s, when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hameed Khan.

Today, microfinance institutions that are most civil society initiatives have been gaining in popularity among the unbanked population as it is flexible and easy to operate. The poor have demonstrated not only their desire for micro-loans but also have become credit worthy. This proves there is a great demand, and that it's viable. Even if it does not reduce poverty immediately mere access to finance is a workable solution to make the poor become entrepreneur. The experience of many micro finance institutions so far strongly reveal that it is possible for these institutions to reach the goal of serving people in extreme poverty without asking for collateral and at the time without having to sacrifice their profitability. However it is equally disheartening to see that MFIs are designing the programme of microfinance, keeping in mind only market principles of competitiveness and sustainability, even when designing the programme for the poorest clients.

The activities of microfinance include,

1. Small loans for working capital
2. Collateral securities such as group guarantees or compulsory savings,
3. Access to repeat & larger loans based on repayment performance
4. Stream line loan disbursements & monitoring
5. Secure savings.

The various models of micro finance in India are

1. SHG Bank linkage model
2. Micro finance institution model
3. Grameen model
4. Individual lending

In India, microfinance operates through two channels:

1. SHG – Bank Linkage Programme (SBLP)
2. Micro Finance Institutions (MFIs)

Micro finance differs from micro credit, in the sense; micro credit is concerned with small amount of loans given to the borrower. Micro finance, on the other hand, offers many other financial services such as savings a/c, insurance etc, besides loan. Therefore, Micro Finance has wider concept base when compared to micro credit.

3.2 SHG – Bank Linkage Programme

This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs

The growth of India's microfinance over the past 16 years is remarkable - and it has been accelerated for the last three years, being improved both qualitatively and quantitatively.

Bank linkage model is well managed in India by NABARD; currently there is no proper regulatory body for the supervision of MFIs. The presence of institutions with a variety of legal forms makes it difficult for the regulation of all such institutions by a single regulatory body in the current Indian legal structure. Though NBFCs, which cover the major part of the outstanding loan portfolio by the microfinance channel, are regulated by Reserve Bank of India, other MFIs like societies, trusts, Section-25 companies and cooperative societies fall outside the purview of RBI's regulation. The acceptance of the Malegam committee recommendations by the RBI is a big step forward in addressing the above concern but again it will cover only a section of the MFIs i.e. NBFCs. The microfinance bill which was introduced in the year 2007 is still pending. The most recent and the strongest step taken by the government, The Micro Finance Institutions (Development and regulation) Bill, 2011 is a major step in the microfinance sector. The proposed bill clarifies all doubts pertaining to regulation of the MFIs by appointing RBI as the sole regulator for all MFIs.

3.3 Review of Literature

Daley-Harris (2002), Rubana (2008), Lalitha, 2008 and many other studies came to the conclusion that microfinance is an effective tool for combating poverty. Luong (2010) mentions that MFIs give the poor a chance to enjoy various financial services that they can't access through the regular banking system. They can acquire small loans to establish small businesses in their communities and make a steady living out of it. Performing micro financing activities requires these institutes to go into villages and rural settings with little or no infrastructure, also to attract customers they usually have to increase their outreach and thus incur massive costs for expanding their setup and hiring and training of workers. The advances they give out are small in amount and hence cannot be the sole source of meeting costs. Hence microfinance institutions cannot easily reach the state of self-sufficiency by covering their costs (Zeller & Meyer 2002).

Nghiem et al (2003) cites various studies like UNDP (1996a), Seibel and Kunkel (1997), Hung (1998), Llanto (2000) and McCarty (2001) which have found a positive correlation between microfinance and poverty alleviation. Further Nghiem et al (2003) quotes the statistical figures from the Vietnam Living Standard Survey (VLSS) that poverty rate in Vietnam dropped from 58 percent to 37 percent during the period from 1993 to 1998 (GSO, 1994; 2000). In the same time frame the percent of rural population having access to credit grew from 23 percent to 40 percent. Hence it is believed that provision of microfinance helped in reducing poverty in Vietnam (as cited in Nghiem et al, 2003).

According to Luong (2010), this lack of sustainability stalls microfinance institutions' efforts to expand their services to the extremely poor people and communities and a tradeoffs between sustainability and outreach comes into existence. So to pursue their policy of reaching the poor and deprived, the MFIs need to explore ways to manage surviving themselves without dependence on donor and government. There are certain Microfinance institutions that only cater to women borrowers and thus limit their clientele to women trying to make a living using the means at their disposal.

Hussein and Hussain (2003) the authors list various studies that have been conducted to assess the impact of microfinance on poverty. They mention the fact that while assessing the performance of microfinance the major source has been anecdotal evidence from people and only one proper study had been conducted in this regard funded by the State Bank of Pakistan. Any study of the poverty impact needs to be conducted usually on primary basis and with the creation of control groups. It is difficult to monitor the impact on people as it is hard to monitor them in the long run and keep record of all their financial and economic activities to truly measure and separate out the effect of microcredit or any other microfinance facility they avail. Nonetheless, the sector provides readily available credit to the poor with little time taken in transfer of funds and thus can be considered a plausible solution to the financial needs of the poor households.

4.0 Methodology

This paper forms part of a research study undertaken by the authors on the status of microfinance scheme through self help groups in Kancheepuram district of Tamil Nadu. Secondary data pertaining to the objectives formulated for the study were gathered from various sources listed in the references section. The performance of self help groups through Bank-linkage programs was analysed and the reasons for their growth and downfall were analysed through general interviews with the select SHGs and the lead bank officials in Kancheepuram district, Tamil Nadu. Based on the inferences made from the analysis of secondary data and preliminary interviews conducted with 50 women self help groups and the lead bank officials in Kancheepuram town, the authors suggest the ways and means to consolidate the micro finance activities through SHGs to make it an integrated developmental finance scheme for the socio-economic welfare of the local communities.

5.0Analysis and Discussions

5.1 Microfinance Movement in India – The status report

Microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality. Muhammad Yunus a Nobel Prize winner introduced the concept of Microfinance in Bangladesh in the form of the "Grameen Bank". NABARD took this idea and started concept of Micro Finance in India. In this concept, there exists a link between SHGs (Self-help group), NGOs and Banks. The SHGs are formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations. They are entitled to seek credit from the banks. There is an involvement of the concerned NGO before and even after the SHG-Bank linkage. The SHG-Bank linkage programme, which was undertaken since 1992 in India, had financed about 22.4 lakh SHGs by 2006. It involved commercial banks, Regional Rural Banks (RRBs) and cooperative banks in its operations. The features of micro financing would speak for its claim as an excellent financing scheme for small women entrepreneurs in the state. They are:

1) Facility to avail loan without security
2) Extension of loans to even those people, who live below poverty line
3) Loan limit to INR 25,000/- even for a tiny / cottage type industrial activity
5) Lenient terms and conditions to avail the loans

The two important models/channels of microfinance involving credit linkages with banks in India are (i) SHG - Bank Linkage Model: This model involves the SHGs financed directly by the banks viz., CBs (Public Sector and Private Sector), RRBs and Cooperative Banks. (ii) MFI - Bank Linkage Model: This model covers financing of Micro Finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers

The SHG Bank Linkage Model has made considerable progress, since its inception in the early 1990s. During 2009-10, banks have financed 15.87 lakh SHGs, including repeat loan to the existing SHGs, with bank loans of Rs. 14,453 crores. Out of the total loans disbursed during 2009-10, SHGs financed under SGSY accounted for 2.67 lakh (16.9%) with bank loan of Rs. 2198.00 crore (15.2%). As on March 2010, the average loan amount outstanding per SHG and per member were Rs. 57795/ and Rs. 4128 respectively. The estimated number of families/households covered under the Self Help Group (SHG)-Bank Linkage Programme was 9.7 crores up to 31 March 2010.

Out of the total number of saving linked and credit linked SHGs, exclusive women SHGs with banks were 76.4 per cent and 81.6 per cent, respectively. The NPAs to total bank loans outstanding against SHGs as on 31 March 2010 stood at 2.94 per cent amounted to Rs.823 crore. In case of SHGs under SGSY, NPAs to total bank loans outstanding against SHGs were five per cent, amounting to Rs. 319 crore, as on 31 March 2010.

Table 1: Overall Progress under SHG-Bank Linkage for Last 3 years

Particulars		**2009-10**		**2010-11**		**2011-12**
	No of SHGs	**Amount**	**No of SHGs**	**Amount**	**No of SHGs**	**Amount**
SHGs savings with banks as on 31st march						
Total SHGs	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7016.30 (13.2%)	79.60 (6.7%)	6551.41 (-6.7%)
Of which SGSY groups	16.94 (12.5%)	1292.62 (-17.3%)	20.23 (19.4%)	1817.12 (40.6%)	21.23 (5.0%)	1395.25 (-23.2%)
% of SGSY groups to total	24.4	20.9	27.1	25.9	26.7	21.3
All women SHGs	53.10 (9.18%)	4498.66 (1.46%)	60.98 (14.8%)	5298.65 (17.8%)	62.99 (3.3%)	5104.33 (-3.7%)
% of women groups	76.4	72.6	81.7	75.5	79.1	77.9
Loans disbursed to SHGs during the year						
Total SHGs	15.87 (-1.4%)	14453.3 (17.9%)	11.96 (-24.6%)	14547.73 (0.01)	11.48 (-4%)	16534.77 (13.7%)
Of which SGSY groups	2.67 (1.0%)	2198 (9.1%)	241 (-9.9%)	2480.37 (12.8%)	2.10 (-12.9%)	2643.56 (6.6%)
% of SGSY groups to total	16.9	15.2	20.1	17.0	18.3	16.0
All women SHGs	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.4%)	12622.33 (1.6%)	9.23 (-9.2%)	14132.02 (12.0%)
% of women groups	81.6	86	85	86.8	80.4	85.5
Loans outstanding against SHGs as on 31st march						
Total SHGs	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.3%)	31221.17 (11.4%)	43.54 (-9.0%)	36340.00 (16.4%)
Of which SGSY groups	12.45 (27.5%)	625.108 (6.6%)	12.86 (3.4%)	7829.39 (25.2%)	12.16 (-5.4%)	8054.83 (2.9%)

% of SGSY groups to total	25.7	22.3	26.9	25.1	27.9	22.2
No of all women SHGs linked	38.98 (18.9%)	23030.36 (23.9%)	39.84 (2.2%)	26123.75 (13.4%)	36.49 (-8.4%)	30465.28 (16.6%)
% of women groups	80.3	82.1	83.2	83.7	83.8	83.8

(Amount in crore/Numbers in lakh) Source: Nabard

I t can be observed that number of saving linked SHGs now stand at 7.96 million with a membership of over103 million poor households. While bulk of these savings is used for internal lending within the Group (over 70%), the balance is maintained in the savings accounts with the financing banks. Over 79% of SHGs linked to banks are exclusive women groups, which is one of the most distinguishing features of microfinance sector in the country.

The balance in the savings accounts of the banks as at the end of March 2012 stood at `6551.41 crore. Among the major States, Karnataka SHGs maintain the highest S.B. balance of over`16000per SHG followed by Punjab of nearly `12500 per SHG. Among the regions, southern region is highest at `10080 per SHG and north eastern region recorded the lowest balanceof`4159 per SHG.Onanaverage, the SHGs maintain a balance of `8230. Commercial Banksaccountfor58%ofthesavingsaccount maintained by SHGs and RRBs 27% and Cooperative Banks the remaining 15%.

5.2 The status of Micro finance consolidation

To attract capital, consolidation is necessary because investment firms are more likely to consider larger scale MFIs that demonstrate a greater capacity to increase outreach. It has been found in the study that the growth of microfinance sector in India is headed towards a phase of consolidation, and it is expected to witness remarkable changes with a series of mergers and acquisitions to take place in the near future. It has been inferred that consolidation will occur amongst smaller MFIs in order to compete with India's micro lending giants. Currently, the top 25 micro lenders in the space account for 75 percent of total micro lending, creating a strong imperative for small MFIs to join forces. It is observed that MFIs serving less than 5000 clients need consolidation in its financing engagements at micro level, in order to serve the purpose. An investigation on the need for consolidation reveals that it originates from a desire among the small MFIs to attract new investment. With Indian microfinance serving only 7 percent of the market, MFIs are desperately seeking new capital to scale up.

5.3 Microfinance and Bank-Linkage Programme

The most common group-lending model in India is "SHG (self-help group)-bank linkages" and it is primarily providing small loans from banks to groups of SHGs. Micro-saving is also its important target. Beside borrowing and saving, SHGs in India play additional roles in spheres of local politics, social harmony, social justice and its contribution to community.

Detailed analysis of the SHG-Bank Linkage Programme across the geographical spread of the country and across the financing agencies is being presented in this section. The analysis covers the broader components of the programme, namely inclusive growth, savings, loans and the recovery performance. Table-1 gives the growth of SHGs - saving as well as credit linked-for the last 3 years, separately for all Groups, Groups formed under SGSY and exclusive Women Groups.

Under the SHG-Bank linkage programme, over 103 million rural households have now access to regular savings through 7.96 million SHGs linked to banks. About 27% of these SHGs are savings linked through the SGSY programme .Currently, a total of 25 lakh such women's SHGs across the country access loans at rates ranging from 11.5% to 14%. The government expects the number of women's SHGs to swell up to 60 lakh and their total membership to increase to 7 crore in the next five years. Currently, these SHGs have a total of 3 crore members. Commensurate with the rise in the number of SHGs, the government believes that the size of the total loan disbursed to the sector will also increase from Rs 20,000 crore to Rs 1 lakh crore within the time period.

6.0 Towards successful consolidation

Microfinance helps in integrating the financial needs of poor people into a country's mainstream financial system. It has been acknowledged that the development of a healthy national financial system is an important goal and catalyst for the broader goal of national economic development, which microfinance serves very well. Microfinance helps the poor, including women in not just obtaining loans but also inculcating in them habits of savings, investing in insurance policies and money transfer services. It helps them to raise income, be self-dependent, build up assets and have a better life and better standard of living.

For a wider coverage and reach of microfinance scheme, first, microfinance donors should focus their support on (and encourage) MFIs who operate in countries who are making consistent efforts to improve regulation, institutions, and legal systems. If governments of developing countries are looking to lead their countries out of poverty, perhaps this might create incentives for governments to increase transparency and regulatory systems. Secondly, MFIs need to rethink their target recipients. This is a more difficult way of handling microfinance. At first glance, it may seem unfair to stop lending to poorest people who need it the most, but at a closer look it becomes clear that these people are not benefiting from their loans long term, or making business ventures that are sustainable. The more well off, who can still benefit from a microcredit loan to expand their business, buy more equipment, and employ more people, should be the main recipients of loans. These types of enterprises have the capacity for self-sustainability and revenues. Businesses under this category include (but is not limited to) those that have steady markets, some kind of office to operate out of, and room for expansion. More formal sector businesses such as these will create more growth and development than loans to informal sector businesses will.

Thirdly, using microfinance to increase access to public goods is an innovative and new way of improving quality of life for people. For instance, MFIs could offer low interest rates on village loans that will be used to build a well or a small school. While these loans would be larger and probably riskier, the condition of group lending makes it feasible. Arrangements could be made for urban districts interested in public good improvements. Default would cause the village or district to forego monies for future improvements. With this incentive, members of the group are keen on monitoring their fellow members and ensuring that everyone involved makes their repayments. While, such projects would certainly be more complicated than basic microfinance loans, perhaps that is the key to paving the way toward growth.

7.0 Conclusion

To conclude, economic growth requires many things—from relatively stable governments to alleviation of poverty to the creation of a formal business sector to access to clean water, education, and healthcare. Microfinance could change to promote long-term growth, especially, in the rural sector. There should be an emphasis placed on improving overall quality of life. Public goods must be provided to the villages and poor slums in which microcredit is extended. Facilities such as safe wells, paved roads, and so on, must be provided for motivating entrepreneurial microcredit borrowers in the rural areas. A focus on t lending to the poor but better off, who can create real enterprises and employ their less able neighbours, is necessary to create self-sustaining small companies, and to make the push toward a formal sector. Microfinance is still a relatively new idea and some changes are needed to take place in the pattern of financing. As MFIs have maintained their strong reputation and ability to reach millions of people and possess the necessary qualities to bring change, they need to consolidate their lending efforts to cover all echelons of the society and industrial sectors.

References

[1.] Munian.A, Micro finance and poverty reduction: analytical issues, Southern Economist, May 2009, p 43.
[2.] Prema Basargekar, How empowering is micro entrepreneurship developed through micro finance, Asia Pacific Business Review, Vol V, No 1, Jan March 2009, p 68 - p 76.
[3.] Prebhudeva.M.K, and Veerabhadrappa, Microfinance: Financial access or poverty allevation, June, 2009, p 20 – 22.
[4.] Rakesh Mohan. Report on committee on financial sector assessment, March 2009, p533.
[5.] Srinivasan. N, Microfinance India, State of the sector report 2009, SAGE publications, p 23-48.
[6.] Status report 2009-10, NABARD on Status of micro finance in India 2009-10.
[7.] Hossain, M. (1988). "Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh". Research Report No. 65, Washington: International Food Policy Research Institute in collaboration with the Bangladesh Institute of Development Studies.
[8.] Rahman, A. (1999). Microcredit Initiatives for Equitable and Sustainable Development: Who Pays? World Development, 27(1), 67-82.
[9.] Salasya, B. D. S., W. Mwangi, H. Verkuijl, M. Odendo and J. O. Odenya (1998). "An Assessment of Adoption of Seed and Fertilizer Packages and the Role of Credit in Smallholder Maize Production in Low Tropics and Vihiga Districts, Kenya". Mexico D.F: CIMMYT and KARI.
[10.] Source: Status of Microfinance in India 2009-10,2010-11,2011-12: a NABARD publication