OUTREACH AND IMPACT OF MICROFINANCE: AN EVALUATION OF MUDRA SCHEME IN PATNA AREA

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OUTREACH AND IMPACT OF MICROFINANCE: AN EVALUATION OF MUDRA SCHEME IN PATNA AREA

A Dissertation submitted in fulfilment of the requirement of Advance Professional Programme in Public Administration – 45^{th} Course (2019-2020) for award of the degree of Master of Philosophy in Social Science from Punjab University, Chandigarh

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CERTIFICATE

I have the pleasure to certify that **Shri Kusum Ranjan** has pursued his research work and prepared the dissertation entitled **"Outreach and Impact of Microfinance : An Evaluation of MUDRA Scheme in Patna Area"** under my guidance and supervision. This dissertation is result of his own research and to the best of my knowledge, no part of it has earlier comprised any other monograph, dissertation or book.

This is being submitted to the Punjab University, Chandigarh for award of the degree of Master of Philosophy in Social Science in partial fulfilment of the requirement of Advanced Professional Programme in Public Administration – 45th Course (2019-2020) of the Indian Institute of Public Administration (IIPA), New Delhi.

I recommend that the dissertation of **Shri Kusum ranjan** is worthy of consideration for the award of Master of Philosophy in Social Science from Punjab University, Chandigarh.

(Dr V N Alok)

Supervisor and Guide

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I.P. Estate, Ring Road, New Delhi- 110 002

Dated : Mar, 2020

Place: New Delhi

SELF DECLARATION

I declare that the titled “Outreach and Impact of Microfinance : An Evaluation of MUDRA Scheme in Patna Area” for the award of the degree of Master of Philosophy in Social Science by Punjab University, Chandigarh is the original research work and that as per best of my knowledge the work or part of work thereof has not been submitted earlier for the award of any degree or diploma, either this or any other University.

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CHAPTER 1

INTRODUCTION

1.1 General

India is a developing country. India’s current economic growth is among top five leading countries in the list worldwide, be it developed or developing country. India’s sustainable economic growth has lead to visible improvement in the living standard of its citizen. It is also an irony that one third of world’s poor population is living in India. Their living condition is miserable in comparison to fellow citizens who have already got the comprehensive share in the growth.

Most of the activities in the rural or urban areas are financial and needs money to carry out such obligations. This is often the situation that people are in need of money to carry out such activities but they do not have enough money for that, compelling them to go for unethical practices for acquiring the money. There are several types of need for which money is required are enumerated as under:

(i) Lifecycle Needs: Weddings, Funerals, Child Birth, Education, Home Building, Old Age etc.

(ii) Personal Emergencies: Sickness, Injury, Unemployment, Theft, Death etc.

(iii) Disasters: Floods, Cyclones, War etc.

(iv) Investment Opportunities: Expanding a Business, Buying Land, Improving Housing, Getting Job etc.

One of the basic problems with the poor population is that of non availability of sufficient amount of money when they needed it the most. A relatively larger amount of money is needed to construct a house, children education etc. In such a scenario they have no other options but to borrow it from somewhere. The poor population generally borrow money from relatives, money lender on certain terms and conditions. They have to repay the amount once sufficient saving is made by them in due course of time. They do not have outreach to banks because of non availability in the nearby area or any other government sponsored facilities to get the money on soft rate of interest.

Loans to poor by the banks have many limitations such as lack of security, high operating cost etc. The poor has to reach to the bank on his own arrangements thus loosing extra money and time. This makes them unattractive. Microfinance thus developed as an alternative to provide loans to the poor people with goal of creating financial inclusion and equality. It is defined as, financial services such as saving account, insurance funds and credit provided to poor and low income clients so as to help them increase their income, thereby improving their standard of living. Under many such schemes, loans are to be given without securities to self help group for enhancing their business, to the poor below poverty line and some financial services such as saving accounts and insurance are also covered.

Government of India has launched Pradhan Mantri MUDRA Yojna (PMMY) on 08 April 2015. Micro Units Development and Refinance Agency Bank (MUDRA Bank) is a public sector financial institution in India. It provides loans at low rates to commercial banks, regional rural bank (RRB), small finance bank, micro-finance institutions (MFIs) and non-banking financial company (NBFC) which then provide credit to Micro Small Medium Enterprises (MSMEs). It provides loan under three products namely Shishu, Kishore and Tarun. Under the products Shishu the loan is distributed upto Rs 50,000. It has been targeted to provide loans to 100 million beneficiaries by 2020. There are private players also who are doing their business under MFIs and NBFCs.

Till the first decade of the 21st century, the Non-bank Finance Company-Micro Finance Institution (NBFC-MFI) model has proved its significance. It has proved itself to be a viable and sustainable means of providing access to finance and meet the financial requirements even to the bottom of the pyramid population. NBFCs-MFIs have been playing a significant role in taking forward the financial inclusion agenda of the Government of India as a dedicated credit delivery channel for the vast un-banked/under-banked segments. NBFC-MFIs sets to be apart with the fact that these institutions do not depend on the grants or the subsidies to provide unsecured loans to the people with low incomes and has no access to the banking system. Instead of this, these institutions have used market oriented solutions that encourage self-reliance and entrepreneurship amongst its clients. Micro finance is a way under which loans, credit, insurance, access to savings accounts and money transfers has been provided to small business owners and entrepreneurs in the rural parts of the country which is underdeveloped.

Worldwide Micro finance has been looked upon as a means of credit-based poverty alleviation and financial inclusion of the people. The study made in this regard uses secondary and primary data on Self Help Groups (SHGs) in order to evaluate the role being played by these institutions towards the financial inclusion of the groups or the regions excluded from the formal financial system. In connection to this the study has also analysed the geographical spread of micro finance institutions, access and affordability of micro finance for women borrowers and movement of women borrowers out of the SHGs. The findings of this study have reflected that there is significantly limited scale and spread of micro finance in India. The women borrowers who are belonging to mature SHGs have continued to be remain dependent on formal sources, as have revealed from the primary data further corroborates the point regarding the limited spread of micro finance. Comparatively higher rates of interest on the SHGs loans which are comparable with the rates of interest of informal sectors, underlines the issue of affordability of micro finance for the loans by the poor borrowers. The drop outs of members are an issue which relates to the higher interest rates. The one of the most common reason for the drop outs among the SHGs members is their regular repayments of loans. The members mostly complain of the inability to repay their loans on time and subsequently gets drop out. Therefore, the observations of this study reflect the considerable scope for the micro finance to emerge as an effective means of financial inclusion that remain accessible and affordable for the excluded group or the regions and that can help loosen the grip of informal sources of finance and ensure permanent inclusion of the still excluded sections of the society in the ambit of the formal finance.

The most beneficiaries from micro finance are such population who do not have access to the traditional financial resources. The rate of interest on the micro loans is generally higher than that given on traditional personal loans.

NBFC-MFIs by 2009 had been contributing in significant proportion of the aggregate micro finance activity in India. In the financial year 2009-10, these institutions had succeeded in reaching out to more than 23 million low income clients at pan-India level and the total lending amount had exceeded Rs 1800.00 crores. By the year 2016 the total number of customers in the micro financing institution becomes 123 million worldwide and the loan portfolio touches to $ 102 billion. India had emerged as the leader in micro finance in 2016 with the number of borrowers rose to 47 million and the total amount as the outstanding loans had touched $ 15 billion. Vietnam has become second and then followed by Bangladesh, Peru and Mexico respectively. In the rural areas female borrowers were more in number than the male borrowers. The share of female borrowers made up 84% in 2016 and the people living in the rural areas representing 60% of the market approximately.

The gross loan portfolio (GLP) of the micro finance industry stood at an amount of Rs 1.88 lakh crore at the end of march 2019, which is up by 38 percent year to year. Micro finance Institutions Network (MFIN), an RBI recognised self-regulatory organisation and industry association of micro finance industry has found out in its one of the study that the total number of micro finance accounts was 9.33 crores by the end of March 2019 which is up by 21.9 percent.

Non-Banking Finance Company-Micro finance Institutions (NBFC-MFIs) in all holds the largest share of portfolio in micro credit with the total outstanding loan of Rs 68,868 crores which works out to 36.8 percent of total micro credit worldwide.

In the financial year 2018-19, micro finance has shown a very rapid, regionally balanced and resilient growth in India. The growth is not only in loan size and loan accounts but also increase in the number of staff of NBFC-MFIs was up by 34 percent totalling to 1,04,973 persons. Growth inside India has been seen in the eastern part of the country also with Bihar and Odisha now ranked among the most improved states, MFIN added. There are 53 NBFC-MFIs members in MFIN and all together they have been able to disburse 3.25 crores loans amounting to Rs 82,928 crores during 2018-19.

In comparison with the financial year 2017-18, there has been an increase year-on-year by 28 percent in the number of loans disbursed and 44 percent with respect to the amount of loans disbursed. In the financial year 2018-19 NBFC-MFIs has received a total of Rs 35,759 crores as debt funding from the banks and other financial institutions. The growth is about 63 percent in comparison to the financial year 2017-18. The equity in total has grew by 42 percent during the same period and amounting to Rs 14,206 crores as per MFIN. The current primary members of MFINs consist of 53 in total along with 38 associates including banks, small finance banks and NBFCs.

There is a need for more transparency and better governance as the NBFC-MFI industry grows. It is because of this only that the industry felt the need for an organisation that would form a framework for fair practices and client protection for the NBFC-MFIs and promote the development of a robust Micro finance Industry in India.

1.2 Objectives of the research

There are a large number of institutions who are also providing loans after registering themselves under NBFC or MFIs. The Government of India has also launched a scheme named as PMMY which has completed four years since it inception on 08 April 2015. Rural poor population is getting benefitted from this scheme. The objectives of this research are

(a) To take stock of the status of achievements of PMMY and emerging trends.

(b) To identify issues involved during the distribution of loans to the poor people in rural areas.

(c) To study outreach of the Government Scheme and NBFC and its impact on the living standard in rural areas of Bihar near Patna.

1.3 Research Questions

The research aims to do stock taking of status of achievements of various targets of Prime Minister Mudra Yojna and issues related to implementation and relook in the system if any in rural areas under Prime Minister Mudra Yojna to find answer to following questions:

(a) Has the government achieved targets set in PMMY for micro financing the poor?

(b) What are the issues Government need to address to achieve the target of 100 million loan distribution by 2020?

(c) Has the poor living in rural areas of Bihar benefitted in uplifting their standard of living and what are their experiences?

1.4 Research Design and Methodology

Research Design is Descriptive and Exploratory in nature. It will carry out the content analysis of available data from secondary and primary sources to understand the present scheme and state of achievement in rural areas of Bihar near Patna.

The first part of the research is descriptive in nature wherein the data from secondary sources for 2015-2019 period will be collected, collated and analysed. The sources from which these data have been collected are Government reports, PMMY reports, various research articles, periodicals, books, authentic web sources and study conducted and compiled by Government/Non Government agencies.

Descriptive Analysis will be carried out on the Data collected and information gathered through secondary sources.

The second part of the research is exploratory in nature. In this part of the research rural areas in Bihar near Patna, State Capital, will be studied for the impact and outreach to the poor for this Government scheme.

Data/Informations in these areas will be studied. The primary data will be collected from the following stakeholders:

(i) Government institutions like District Head Quarters.

(ii) Residential households of the districts to know the impact on their livelihoods.

Conclusions have been drawn based on the focussed group discussion with above stakeholders and recommendations are provided on policy and related issues.

Of the two districts in the neighbouring area of Patna have been selected which are among the better performed district of Prime Minister Mudra Yojna Scheme. The records of the District Administration have been asked for the study. The data have been collected in the following category

(i) The number of borrowers of loan since the date of inception of the Scheme till the current financial year.

(ii) The Amount disbursed during this period.

(iii) The Category of borrowers to see that the scheme outreach to the last man standing in the queue be it OBC/SC/ST and women.

1.5 Organisation of the Dissertation

The above study on the subject has been organised in following manner:-

(a) Introduction: The current Chapter

(b) History of Microfinance and MUDRA Scheme in India: This chapter deals in detail about the evolution of microfinance in the world. The chapter deliberates on the Microfinance in relation with Indian Subcontinent. Indian Subcontinent is leading in introducing the Microfinance to the world. How Muhammad Yunus introduces it to the world way back in 1970s in Bangladesh and during the same period Ela Bhatt introduced it in Gujarat and the success story continued since then. The chapter also speaks about the outreach to the people since then.

In this chapter MUDRA Scheme has also been discussed in detail. The vision and mission of this scheme has been clearly brought out. How the scheme can empower the general masses of the country by providing loan to them to start their own work or to expand their ongoing work has been spelt out in this chapter.

(c) RBI Master Circular on Micro Credit and Overview of Microfinance: In this chapter RBI guidelines regarding the policies on Micro Credit and how to involve more and more people into it has been discussed.

In this chapter the overview of Microfinance has also been discussed. This chapter includes the channels, role, microfinance companies, documentation part, its criticism and share of various loan activities in details.

(d) Non Banking Finance Company Vs Microfinance Institution: In this chapter the difference between Non Banking Finance Company and Micro Finance Institutions has been deliberated in detail. How the loans are granted under these has also been discussed in detail.

(e) Evaluation of MUDRA Scheme in Patna area: This chapter carries out detailed study of two districts near Patna area in Bihar with respect to Impact and outreach of Prime Minister MUDRA Yojana like its outreach to the masses in general. Its outreach to all categories of the society including women.

(f) Conclusions and Recommendations: This chapter outlines certain options and recommendation which would help the country in achieving the set targets of the Government schemes. The paper also endeavours to highlight the issues which the Government needs to address for achieving its target by 2020. Further the conclusion brings out the importance of contribution of various schemes to the society however small they may seem. The chapter also brings out recommendation on implementation of MUDRA Scheme in rural India and how such schemes can uplift the living standard of the last man of the society.

CHAPTER II

HISTORY OF MICROFINANCE AND MUDRA SCHEME IN INDIA

“Microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge. And while the lack of financial services is a sign of poverty, today it is also understood as an untapped opportunity to create markets, bring people in from the margins and give them the tools with which to help themselves."

---Kofi Annan

2.1 General

Practical visionaries, over the past centuries, such as Franciscan Friars who has founded the community oriented pawnshops in the 15th century to the founders European credit union movement in the 19th century by Friedrich Wilhelm Raiffeisen and the founders of the micro credit movement in the 1970s by Muhammad Yunus and Al Whittakar, they all have tested practices and built institutions designed to bring the kinds of opportunities and risk management tools that the financial services can be provided to the door steps of poor people. The success of the Grameen Bank in the neighbouring Bangladesh which is serving over 7 million poor Bangladeshi women population is inspiring to the world community. The success of the Grameen bank has risen to such a level that it has proved very difficult to replicate elsewhere. In countries where the population densities are in the lower side, meeting the operating costs of a retail branch by serving the nearby customers has proven to be much more challenging. Hans Dieter Seibel, one of the board members of the European Micro finance platform is in favour of the group model. The group model has been used by many Micro finance institutions makes financial sense. He opined that by following the group model, the transaction costs get reduced to a large extent. The programs run by the financial institutions also need to be based on local funds so that the nearby population remain involved in it and the financial burden will not get shifted to the centre.

The history of micro financing can be traced way back to the middle of the nineteenth century, when one of the theorists Lysander Spooner has written about the benefits of small credits to entrepreneurs and farmers as a way of getting the poor people out of poverty. Wilhelm Raiffeisen, independent of Lysander Spooner, founded the first cooperative lending banks to support the farmers in rural Germany

In the modern era the use of the expression “Micro-Financing” has roots in the 1970s when the Grameen Bank of Bangladesh, founded by the micro finance pioneer Muhammad Yunus, was starting and shaping the modern industry of micro financing. The modern approach of micro finance has been institutionalised by Muhammad Yunus in 1976 when he laid the foundation of Grameen Bank in Bangladesh. Apart from Muhammad Yunus another pioneer in this sector emerged from Pakistan and he was a social scientist named Akhtar Hameed Khan.

In the developing countries people still are largely depends upon agriculture or the basic food trade for the livelihood of their family, therefore, significant resources have gone into supporting small holder of agriculture land for fulfilling the basic needs in developing world. This will help them in additional earning along with agricultural earning which will support their family.

2.2 Microfinance in the Indian subcontinent

Loans given to the poor people by the banks have many limitations including lack of security for the repayment and have high operating costs. Hence, micro finance had been developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and achieving some equality among the locals. In India, Ela Bhatt had initiated women's own SEWA Cooperative Bank in Ahmadabad, Gujarat in year 1974 which was perhaps one of the first modern micro finance institutions of this kind. Muhammad Yunus, a noble Prize winner, had introduced the concept of Micro credit in neighbouring Bangladesh in the form of "Grameen Bank".

The National Bank for Agriculture and Rural Development (NABARD) has been looking at the several models for offering financial services to the unbanked, especially women and had decided to experiment with a very different model which is now popularly known as Self Help Groups (SHGs). In this new concept a small group of women and sometimes men are able to form their own mini bank which is self governed and managed and create links with the banks and Self Help Groups (SHGs), NGOs with the banks. SHGs are generally formed and nurtured by NGOs and only after accomplishing a certain level of maturity with respect to internal thrift and credit operations, they have been able to save and can also seek credit from the banks. NGOs or government agencies remain involved in the initial stage of formation for parting initial training and even after the SHG bank get linked. The SHG-Bank linkage programme which has been in place since 1992 has become one of the largest micro finance of this kind in India. It has 7.9 million SHGs saving accounts and out of this 4.6 million SHGs are having outstanding loans, with approximately $ 2 billion in saving with banks and $ 8.9 billion has been as outstanding loans. This figure is as per March 2016 records. It involves commercial banks, regional banks, regional rural banks (RRBs) and cooperative banks in its operations.

By the end of year 2013, Grameen Capital India has been able to loan $ 144 million to micro finance groups. In addition to the Grameen Bank Equitas has been another micro finance organisation in Tamil Nadu state. The southern and western states of India are well ahead in literacy from other parts of the country and may be because of this these parts of the country are attracting the greatest number of micro finance loans.

Micro finance can be defined as the financial services such as savings accounts, insurance funds and credit provided to poor and low income group so that it helps them to increase their income thus improving their standard of living.

The main features of microfinance are:

(a) Loan given without security

(b) Loans to those people who live below the poverty line

(c) Members of SHGs may benefit from microfinance

(d) Maximum limit of loan under micro finance Rs.25,000/-

(e) Terms and conditions offered to poor people are decided by NGOs

(f) Microfinance is different from Microcredit- under the Microcredit small loans are given to the borrower but under microfinance alongside small loans many other financial services including savings accounts and insurance are also being provided. Therefore, microfinance has a wider concept than microcredit.

In the year 2014 CRISIL has released its report in the month of June on the Indian Micro finance sector titled “India’s 25 leading MFIs”. The list is most comprehensive and up to date overview of the microfinance sector in India and the different micro finance institutions operating in the sub-continent.

In India the loan officers generally create an emotional connection with the borrowers before loan reaches maturity by mentioning details about borrowers personal life and family details and also demonstrate affection in many ways as a strategy to generate some pressure during recovery. This is possible because of involvement of local person as loan officer and thus remains attached with the borrowers.

RBI is directly regulating the NBFCs and MFIs for micro finance operations where the magnitude of overall lending to the borrower, the number of providers for each borrower, rate of interest, additional charges are stipulated by RBI. In a much simpler term a borrower can be a member of one Self Help Group or Joint Liability Group. The borrower can borrow up to Rs 1,25,000 from two NBFC or MFIs as a member of Self Help Group or Joint Liability Group or in his individual capacity.

2.2.1 Non-Banking Financial Company –

Micro Finance Institutions (NBFC-MFIs): NBFC-MFIs are a non deposit entity, NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

(i) Loan disbursed by an NBFC-MFI to a borrower with a rural household Annual income not exceeding Rs 1,25,000/- or urban and semi-urban household income not exceeding Rs 2,00,000/-.

(ii) Loan amount does not exceed Rs 50,000/- in the first cycle and Rs 1,25,000/- in subsequent cycles.

(iii) Total indebtedness of the borrower does not exceed Rs 1,00,000/-.

(iv) Tenure of the loan should not be less than 24 months for loan amount in excess of Rs 15,000/- with prepayment without penalty.

(v) Loan to be extended without collateral.

(vi) Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs.

(vii) Loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower.

The rate of interest has also been calculated as per quarterly calculations of RBI and the processing fees, loan protection insurance premium can be charged from the borrowers. Stipulations are through "Qualifying Asset" norm of RBI for the micro finance sector. In the micro finance sector, NBFC/MFIs companies are qualified by the virtue of the definition of "credit institutions" of Credit Information Company Regulation Act to upload the borrower level data on Credit Information Bureau. The micro finance industry seems very appropriate and apt to the situation till this point.

2.3 MUDRA SCHEME

"MUDRA Yojna is about funding the unfunded. For me this is about 3E's – Enterprise, Earning and Empowerment"

Prime Minister Sh Narendra Modi at the launch of MUDRA Yojna on 08 April 2015

2.3.1 Introduction

This chapter aims to highlight the MUDRA scheme and guidelines which have been launched to achieve the ambitious target of funding the unfunded. This chapter also highlight the outreach of the scheme to the different group of societies and the progress it has made since its inception. The vision of the scheme is

"To be an integrated financial and support services provider par excellence benchmarked with global best practices and standards for the bottom of pyramid universe for their comprehensive economic and social development".

The mission of the scheme is

"To create an inclusive, sustainable and value based entrepreneurial culture in collaboration with our partner institutions in achieving economic success and financial security".

MUDRA stands for "Micro Units Development and Refinance Agency Limited". It is setup and initiated by Prime Minister Office (PMO). The main goal of this scheme is "Fulfilling all the funding needs of non corporate small business". Loan under this scheme Prime Minister Mudra Yojna (PMMY) is provided to microfinance institutions and small business sectors with the aim to help entrepreneurs start-up restricted by a sufficient budget running business.

India is a developing economy country. The current policies of the country are focussed on the developing economy. A scheme named as Jan Dhan Yojna has emerged from this objective and under this Yojna, micro unit development and refinance agency or MUDRA bank has been formulated and launched on 08 April 2015. The entrepreneurs located in remote areas of the country which is located outside the ambit of banking area got the required support through this scheme.

2.3.2 Scheme Detail

There are three types of categories under which MUDRA loan is available. These categories are as under:

(a) Shishu Scheme

(b) Kishore Scheme

(c) Tarun Scheme

The brief of these three categories of the scheme are as under:-

(a) Shishu Scheme

This scheme is for the entrepreneurs who want to do start-ups. The maximum amount of loan that can be provided under this scheme is Rs 50,000/-. There is no Loan processing charges. The interest rate charged is 1% per month which works out to 12% per annum, though is can vary slightly from agency to agency who are disbursing the loan as per their interest rate. The loan re-payment period is 05 years.

(b) Kishore Scheme

This scheme is for such entrepreneurs who have into the start-ups but yet to be established to its potential. The amount of loan that can be provided under this scheme is more than Rs 50,000/- and maximum upto Rs 5.00 Lakhs. There is no Loan processing charges or collateral charges. The interest rate charged is about 12% per annum, though is can vary slightly from agency to agency who are disbursing the loan as per their interest rate. The loan re-payment period is 05 years.

(c) Tarun Scheme

This scheme is for such entrepreneurs who have already established micro units but still want to expand. The amount of loan that can be provided under this scheme is more than Rs 5.00 Lakhs and maximum upto Rs 10.00 Lakhs. There is no Loan processing charges or collateral charges. The interest rate charged is about 12% per annum, though is can vary slightly from agency to agency who are disbursing the loan as per their interest rate. The loan re-payment period is 05 years.

The loans under MUDRA scheme are being disbursed by Commercial banks, Regional Rural Banks (RRBs), Small Finance Bank, Micro Finance Institutions (MFIs), and Non Banking Financial Companies (NBFCs).

2.3.4 Eligibility Criteria

The eligibility criteria for grant of MUDRA Loan are as under:

(a) The person must be an Indian Citizen.

(b) The age should be between 23-28 years at the time of loan sanction.

(c) Loan can be availed by only micro/small scales business for rural areas.

2.3.5 Impact on Indian Economy

The sectors which are covered under MUDRA Yojna are

(a) Land Transport

(b) Textile Product

(c) Food Product

(d) Social, Personal and Community Service

There will be an impact on Indian Economy because of MUDRA Loan. The impact on Indian Economy will be visible and following changes can be seen:-

(a) Increase in entrepreneurial success will immediately boost GDP of Demographic region where ever such business is located.

(b) Success in business will result into increased employment and this leads to increased demand for Goods and Services.

(c) The purchasing/spending power of the citizen will increase tremendously.

This will result into the well being of the citizen which will help in the growth of the society and ultimately the nation as a whole.

2.3.6 Progress Made

The MUDRA scheme has been introduced on 08 April 2015. The scheme has been introduced pan India. The scheme has got the popularity among the masses and each year not only total number of beneficiaries increases significantly but also the amount being disbursed. The table below shows the progress being made by the MUDRA scheme year by year:

Table 2.1 The progress in MUDRA Scheme made till date from its inception:-

07.02.2020 (Source MUDRA Web)

Sl. No.	Fy Year	Number of Borrowers (In Crores)	Amount Sanctioned (In thousand crores)	Amount Disbursed (In thousand crores)	percent Increase (Borrower/Amount Disbursed)
1	2015-16	3.49	137.45	132.95	-
2	2016-17	3.97	180.53	175.31	13.8/31.8
3	2017-18	4.81	253.68	246.44	21.2/40.6
4	2018-19	5.99	321.72	311.81	24.4/26.5
5	2019-20 Till 07.02.2020	4.77	253.00	247.01	-

From the table above it is amply clear that each year there is a significant increase in both in terms of beneficiaries and the amount being disbursed. The success of the scheme is self explanatory from the rate of increase in terms of beneficiaries and amount disbursed.

The success of MUDRA scheme has reached to most number of states. The success has reached to almost all the major state of the country. The table below shows the outreach and success in the top ten states of the country:

Table 2.2 The progress in MUDRA Scheme in top 10 states:-

(Source: Annual report on MUDRA)

Sl. No.	Name of State	Target 2017-18 (In thousand crores)	Amount Sanctioned (In thousand crores) 2017-18	Amount Sanctioned (In thousand crores) 2016-17	Growth
1	Tamilnadu	23.08	25.33	18.05	40%
2	Karnatka	22.05	23.01	18.00	28%
3	Maharastra	22.24	22.75	17.29	32%
4	Uttar Pradesh	21.59	22.08	15.28	44%
5	West Bengal	18.87	20.55	15.70	31%
6	Bihar	17.19	15.92	12.19	31%
7	Madhya Pradesh	14.67	14.89	10.51	42%
8	Rajasthan	11.82	13.86	9.02	54%
9	Gujarat	11.51	11.39	7.78	46%
10	Odisha	11.29	11.56	7.89	46%

(In descending order)

The growth rate of the scheme shows the outreach and success of the MUDRA scheme pan India and the acceptability of the scheme among masses.

2.4 MUDRA Yojana Scheme Targeting Women

Women in the rural and semi-urban areas yet to be empowered they deserve. Indian Government is launching a number of schemes to empower women in rural areas where they are considered as weaker section of the society. A nation cannot progress unless and until the women get support in terms of getting their basic need met and ultimately be part of development of the economy. The MUDRA Yojana Scheme is one such scheme which has a vision to see the status of women is improved by starting new business. In this scheme a specific amount has been kept reserved for women entrepreneurs. Women are bringing up and taking a leading position by running businesses Like tailoring, beauty parlours, tuition classes, making pickles etc. They can form a Group for taking a loan and this will help them in supporting each other by sharing the knowledge among themselves. After verification of citizenship they are issued MUDRA card and they can apply for loans as other person can apply.

In the old days, women do not have capital to start business. Today in India Women Have started climbing the ladder and they require only courage, determination, grit and vision to do well. When Government come in support of such women by providing loans they are more prepared to be part of the economy. Even banks are formulating strategies to help the women entrepreneurs and they are helping their husbands in doing their business.

2.5 MUDRA Yojana Scheme Targeting OBC/SC/ST

It was a fact that the well to do families or the upper section of society were doing business. The weaker section of society were not in a position to start business as they were lacking in financial support and they were not in a position to take risk. The social division was preventing them to look for the new avenues and doing business was out of reach to such people. Government has started the MUDRA Scheme keeping the weaker section of society in mind. The OBC/SC/ST have been given added benefits and ease in their borrowing needs which are as under:

(a) The borrower need to provide self attested identity proof ,

(b) They can provide residential proof in form of Electricity Bill, bank statement, water bill or a recent telephone bill,

(c) They need only two passport size photo,

(d) They can provide a lump-sum quotation of the machinery they want to purchase,

(e) They need to provide caste certificate.

The Government is also taking responsibility together with such borrower and is having 50-50 liability to the credit facility offered to them. The Government is also offering subsidy to such borrowers and they are permitted to repay the loan even after the tenure period. The Government step will not only bring the weaker section of society into main stream but also empower them which ultimately become the part of development of the economy of the country.

CHAPTER III

RBI MASTER CIRCULAR ON MICRO CREDIT AND OVERVIEW OF MICROFINANCE

3.1 Introduction

This chapter aims to highlight the RBI circular on Micro Credit and guidelines which have been introduced by the RBI to get the outreach as desired by the Central Government.

3.2 Definition

Micro credit has been defined as the provision of saving, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. Micro Credit Institutions are those which provide these facilities.

3.3 The Self Help Group (SHG)

The dependence of the rural poor on moneylenders continues in most of the area especially for meeting the emergent requirements though the Bank Linkage program has seen vast expansion on the formal credit system in the country. Such dependence on moneylenders is more pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and such tribes whose saving is so limited or too small to be mopped up by the banks. Credit to these sections of the population has not been institutionalised because of various reasons. The studies conducted by different agencies such as National Bank for Agriculture and Rural Development (NABARD), The Asia-Pacific Rural and Agriculture Credit Association (APRACA) and international Labour Organisation (ILO) on the informal groups promoted by Non

Government (NGOs) brought out that Self Help savings and credit groups have the potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working has been encouraging. NABARD has launched a pilot project accordingly for this purpose and supported it by the way of refinance. It not only provides technical support but also the guidance to the agencies participating in the programme. The criteria that would broadly be adopted by NABARD for selecting SHGs are enumerated as under:

(a) The SHG should be in existence for at least six months.

(b) The Group should have actively promoted the savings habit.

(c) Group should be formal (registered) informal (unregistered).

(d) The total number of members could be between 10 to 25 persons.

The advances which have been given by the banks to these groups will be treated as advances given to "weaker sections" under the priority sector. The norms relating to margin, security and also scales of finance and unit cost would broadly guided by the banks for lending to the SHGs, deviations if any from such could be made by the banks wherever deemed necessary. These relaxations in margin, security norms, unit cost etc were only in respect of SHGs to be financed under the pilot project.

3.4 NABARD Guidelines

NABARD, vide its circular dated 26 Feb 1992 has issued a detailed operational guidelines to the banks for implementation of the project. Quick studies conducted by NABARD in a few states to assess the impact of the linkage project brought out an encouraging and positive features like increase in loan volume of the SHGs, a definite shift in the loaning pattern of the members from non income generating activities to the production activities resulted in nearly 100% recovery performance, significant reduction in the transaction costs for both the banks and the borrowers etc. besides leading to gradual increase in the income level of the SHG members. One more significant feature observed in the linkage project was that approximately 85% of the groups those are linked with the banks are formed exclusively by women. RBI, in November 1994 with a view to studying the functioning of SHGs and NGOs for expanding their activities and deepening their role in the rural sector, constituted a Working Group comprising eminent NGO functionaries, academicians, consultants and bankers under the chairmanship of Shri S. K. Kalia, the then Managing Director, NABARD. As per the recommendations of the Working Group, banks were advised in April 1996 to follow following instructions:

(a) SHGs lending has to be treated as Normal Lending Activity. The SHGs linkage programme would be treated as a normal business activity of the banks. Accordingly, The banks have been advised that they may consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level. They may include SHG linkage in their corporate strategy or plan, training curriculum of their officers and staff and implement it as a regular business activity and monitor it periodically along with reviewing it.

(b) Under priority sector it has to be treated as separate segment. In order to enable the banks to report their SHG lending without any difficulty, it has been decided that the banks should report their lending to SHGs and to NGOs for on-lending to SHGs, members of SHGs, discrete individuals or small groups which are in process of forming into SHGs under new segment such as Advances to SHGs irrespective of purposes for which the members of SHGs have been disbursed loans. Lending to SHGs should be included by the banks as part of their lending to the weaker sections.

(c) Inclusion in Service Area Approach: Bank may identify branches having potential for linkage and provide necessary support services to such branches and include SHGs lending within their service area plan. Potential reliability to be kept in mind and the service area branches may fix their own interest rates.

3.5 Programme for lending to SHGs as in the case of other activities under the priority sector

With a view to enabling the bank branches to get the benefit of catalytic services of NGOs, the names of NGOs dealing with the SHGs would be indicated on a block-wise basis in the “Background Paper for Service Area Credit Plans”. The service area branch managers might have constant dialogue and rapport with the NGOs and SHGs of the area for effecting linkage. In case a NGO/SHG feels more confident and are assured to with a particular branch other than the service area branch and that particular branch is willing to finance, such a NGO/SHG may at its own discretion deal with a branch other than the service area branch. The lending given to the SHGs by the banks should be included in the Lead Bank Return (LBR) reporting system and reviewed to start with at State Level Banker’s Committee (SLBC) Level. However, it has to be kept in mind that the SHG linkage is a credit innovation and not a targeted credit programme. Following are the important activities:

(a) Opening of savings Bank account – The SHGs be it registered or unregistered which are engaged in promoting savings habits among their members would be eligible to open savings bank accounts with the banks.

These SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts.

(b) Margin and Security Norms – As per the operational guidelines of NABARD, SHGs are sanctioned savings linked loans by banks varying from a saving to loan ratio of 1:1 to 1:4. Past experiences showed that the group dynamics and peer pressure brought in excellent recovery from members of the SHGs. Banks have been advised that the flexibility allowed to the banks in respect of margin, security norms etc under the pilot project would continue to be operational under the linkage programme even beyond the pilot phase.

(c) Documentation – Keeping in view the nature of lending and status of the borrowers, the banks may prescribe simple documentation for lending to SHGs.

(d) Presence of defaulters in SHGs – The defaults by a few members of SHGs and or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by the banks, provided the SHG is not a defaulter in it. However, the bank loan may not be utilised by the SHG for financing a defaulter member to the bank.

(e) Training – One of the important step in the linkage programme would be the training of the field level officials and sensitisation of the controlling and other senior officials of the bank. Considering the need and magnitude of training requirements of bank officers and staff both at field level and controlling office level, the banks may initiate suitable steps to internalise the SHGs linkage project and organise exclusive short duration programmes for the field level functionaries. In addition to this suitable awareness and sensitisation programmes may be conducted for their middle level controlling officers as well as senior officers.

(f) Monitoring and Review of SHG Lending – With regard to the emerging potential of the SHGs and the relative non familiarity of the bank branches with lending to SHGs, banks may have to closely monitor the progress regularly at various levels. Further, the progress of the programme may be reviewed by the banks at regular intervals. A progress report may be sent to NABARD in its Micro Credit Innovations Department in Mumbai, in the format prescribed by NABARD, on a half yearly basis as on 30 September and 31 March each year so as to reach within 30 days of the half year to which the reports are related. In order to give a boost to the ongoing SHG bank linkage programme for the credit flow to the unorganised sector, banks have been advised in January 2004 that monitoring of SHG bank linkage programme may be made a regular item on the agenda for discussion at the SLBC and DCC meetings.

3.6 NBFCs engaged in Micro Financing activities

The Task Force on supportive Policy and Regulatory Framework for micro finance set up by NABARD in 1999 recommended that the policy and regulatory framework should give a fillip to the Self Help Groups on Mon Governmental Organisations engaged in micro financing activities. Accordingly, it was decided to exempt such NBFCs which are engaged in following activities:

(i) Micro financing activities

(ii) Licensed under section 25 of the Companies Act, 1956 and

(iii) Those which are not accepting public deposits from the purview of sections 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-Ic (transfer of profits to reserve fund) of the RBI Act, 1934.

On the basis of the recommendations of the Advisory Committee on flow of Credit to Agriculture and Related Activities from the banking system as elaborated by Vyas Committee in the Annual Policy Statement for the year 2004-05, it has been announced that in view of the need to protect the interests of depositors micro finance institutions (MFIs) would not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.

3.7 Interest rates

The interest rates applicable to the loans given by the banks to micro credit organisations or by the micro credit organisation to Self Help Group of the member beneficiaries would be left to their discretion.

3.8 Mainstreaming and Enhancing

RBI has set up a Micro Credit Special cell for suggesting measures for augmenting flow of micro credit as announced in Governor's Monetary and Credit Policy for the financial year 1999-2000. In the meantime, a Task Force supportive Policy and Regulatory Framework for Micro credit has also been set up by NABARD. On the basis of their recommendations, banks have been advised to follow the under noted guidelines for mainstreaming micro credit and enhancing the outreach of micro credit providers:

(i) The banks may formulate their own model or choose any conduit or intermediary for extending micro credit. They may choose suitable branches or the pockets/areas where micro credit programmes can be implemented. It will be useful to start with a selected small area and concentrate fully on the poor in that area and thereafter with the experience gained replicate the arrangement in other areas. Micro credit that has been extended by the banks to the individual borrowers directly or through any intermediary would be reckoned as part of their priority sector lending.

(ii) The criteria for selection of micro credit organisations have not been prescribed. It may, however, be desirable for banks to deal with micro credit organisations having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow up.

(iii) Banks may prescribe their own lending norms keeping in view the on ground realities. They may devise appropriate loan and saving products and the related terms and conditions including the size of the loan, unit cost, unit size, maturity period, grace period, margins etc. The intensions are to provide maximum flexibility in regard to micro lending, keeping in view the prevalent local conditions and the need for provision of finance to the poor. Such credit should, therefore cover not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

(iv) Micro credit should be included in branch credit plan, block credit plan and state credit plan of each bank. There is no target being prescribed for micro credit, utmost priority is to be accorded to the micro credit sector in preparation for these plans. Micro credit should also form an integral part of the bank's corporate credit plan and should be reviewed at the highest level on a quarterly basis.

(v) A simple system requiring minimum procedures and documentation is a precondition for augmenting flow of micro credit. Hence, banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse micro credit by delegating adequate sanctioning powers to branch managers. The loan application forms, procedures and documents should be made simple which would help in providing prompt and hassle free micro credit.

3.9 Delivery Issues

The Reserve Bank has constituted four informal groups in October 2002 to examine various issues concerning micro-finance delivery. On the basis of the recommendations of the groups and as announced in one of the paragraphs of the Governor’s Statement on mid-term review of the Monetary and Credit Policy for the year 2003-04, banks have been advised as under:

(i) Banks should provide adequate incentives to their branches in financing the Self Help Group (SHGs) and establish linkages with them thus making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions.

(ii) The group dynamics of working of the SHGs may be left to themselves and the need neither be regulated nor formal structures imposed or insisted upon.

(iii) The approach to micro financing of SHGs should be totally hassle free and may include consumption expenditures.

3.10 Financing of MFIs by Banks

Reserve Bank of India in association with few major banks on a joint fact finding study conducted on micro finance made the following observations:

(i) Some of the Micro finance Institutions (MFIs) financed by banks or acting as their intermediaries or partners appear to be focussing on relatively better banked areas including areas covered by the SHG – Bank linkage programme. In case competing MFIs has been operating in the same area and trying to reach out to the same set of poor population, resulting in multiple lending and overburdening of rural households.

(ii) A number of MFIs supported by the banks has not been engaging themselves in capacity building and empowerment of the groups to the desired extent. The MFIs have been disbursing loans to the newly formed groups within 10 to 15 days of their formation in contrast to the practice obtaining in the SHG – Bank linkage programme which is taking about 6 to 7 months for group formation, nurturing and handholding. As a result of this cohesiveness and a sense of purpose has not being built up in the groups formed by these MFIs.

(iii) Banks as the principal financiers of MFIs do not appear to be engaging themselves to their systems, practices and lending policies with a view to ensuring better transparency and adherence to best practices. In number of cases no review of MFI operations has been undertaken after sanctioning the credit facility.

These findings have been brought out to the notice of the banks to enable them to take necessary corrective action whenever required.

3.11 Total Financial Inclusion and Credit Requirement of SHGs

During the announcement made by the Honourable Finance Minister for the financial year 2008-09 attention is invited to be drawn as under:

"Banks will be encouraged to embrace the concept of Total Financial Inclusion. Government will request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely (a) income generation activities (b) social needs like housing, education, marriage, etc. and (c) debt swapping".

Banks are advised to meet the entire credit requirements of SHG members, as envisaged therein.

3.11 AN OVERVIEW OF MICRO FINANCE

3.11.1 Importance of Microfinance

Almost half of the population of our country does not have basic savings account. However, this segment being very large in number requires financial services so that their aspirations such as building of assets and protection against risk can be fulfilled.

Microfinance provides access to capital for individuals who are financially underserved. If microfinance institutions were not offering loans to this segment of the society, these groups would have resorted to borrowing money from friends or family members. The probabilities of them opting for fast cash loans or payday advances, which bear huge interest rates, are also high. Microfinance helps these groups invest wisely in their businesses as well as their other important requirements and hence, is in alignment with the government's vision of financial inclusion in the economy of the country.

3.11.2 Micro Finance and Financial Inclusion

Financial inclusion has been defined as the "provision of affordable financial services" by RBI, to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include "payments and remittance facilities, savings, loan and insurance services". Micro finance has been looked upon as an important means of financial inclusion in India. As already discussed, the Indian concept of micro finance encourages access of SHGs to banks both as means of savings and providers of loan services. However, going a step further, we can say that micro finance has to act proactively not just as a means of financial inclusion and also has to work towards reducing dependence of poor borrowers on various informal sources of credit that are often notorious for the onerous terms at which they offer credit. An effective financial inclusion is possible only with the accomplishment of the second.

Given the definition of financial inclusion, any means for financial inclusion, to begin with, has to be not just easily accessible but also affordable to the borrowers, who do not have access to formal financial system. Secondly, it should ensure that over time the borrowers are able to reduce their dependence on informal sources of finance and a certain degree of loyalty towards SHGs, which can work towards permanent or effective inclusion of these borrowers into the formal banking network.

3.11.3 Key Features of Microfinance

Some of the significant features of microfinance are as follows:

(a) The borrowers are generally from low income backgrounds.

(b) Loans availed under microfinance are usually of small amount, i.e., micro loans.

(c) The loan tenure is short

(d) Microfinance loans do not require any collateral.

(e) These loans are usually repaid at higher frequencies.

(f) The purpose of most microfinance loans is income generation.

3.11.4 Microfinance Channels

Microfinance in India operates primarily through two channels:

(a) SHG-Bank Linkage Programme (SBLP) - This channel was initiated by NABARD in the year 1992. This model encourages financially backward women to come together to form groups of 10-15 members. They contribute their individual savings to the group at regular intervals. Loans are provided to members of the group from these contributions. SHGs are also offered bank loans at later stages, and these loans can be used for funding income generating activities.

This model has achieved a lot of success in the past and it has also gained a lot of popularity for contributing to the empowerment of women in the country. Once these self-sustaining groups reach stability, they function almost independently with minimal support from NABARD, SIDBI, and NGOs.

(b) Microfinance Institutions (MFIs) - These institutions have microfinance as their primary operation. These lend through the concept of Joint Liability Group (JLG), i.e., an informal group that consists of 5-10 members who seek loans either jointly or individually.

3.11.5 Role of Microfinance Institutions (MFIs)

Microfinance services are offered by the following sources:

(a) Formal institutions, i.e., cooperatives and rural banks

(b) Semiformal institutions, i.e., non-government organisations

(c) Informal sources, such as shopkeepers and small-scale lenders

Institutional microfinance encompasses the services provided by both formal and semiformal institutions.

A microfinance institution specialises in banking services for low-income individuals and groups. These institutions access financial resources from mainstream financial entities and provide support service to the poor. Microfinance institutions are hence, emerging as one of the most effective tools in reducing poverty in India. 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. While several MFIs are well-run with great historical records, others are operationally self-sufficient.

The different types of institutions offering microfinance in India are:

(a) Commercial banks

(b) Credit unions

(c) Non-governmental organisations (NGOs)

(d) Sectors of government banks

(e) Cooperatives

Microfinance institutions act as a supplement to the services offered by banks. Apart from offering micro credit, financial services such as insurance, savings, and remittance are provided. Non-financial services such as training, counselling, and supporting borrowers are offered in the most convenient manner as well. Following points must be noted for this:

(a) The borrower gets the above-mentioned services at their convenience

(b) The repayment schedule is also decided by the borrower

(c) Interest rates charged by MFIs are usually higher than that of traditional banks

(d) Interest rates vary widely based on the loan purpose and borrower history

3.11.6 Microfinance Companies in India

Some of the microfinance companies that offer loans to the unbanked and under-banked population in India are as follows:

(a) Arohan Financial Services Pvt Ltd

(b) BSS Microfinance Pvt Ltd

(c) Cashpor Micro Credit

(d) Equitas Microfinance Pvt Ltd

(e) Asirvad Microfinance Pvt Ltd

(f) Bandhan Financial Services Pvt Ltd

(g) DishaMicrofinPvt Ltd

(h) Annapurna Microfinance Pvt Ltd

(i) ESAF Microfinance and Investments Pvt Ltd

(j) Fusion Microfinance Pvt Ltd

3.11.7 Lenders Offering Microfinance Loans to MFIs

(a) ICICI Bank – ICICI Bank has been partnering with MFIs for at least 10 years to provide microfinance loans to these institutions. Currently the bank is focussing on the setting up a profitable and healthy lending business with select MFIs.

(b) State Bank of India (SBI) – SBI offers loans to microfinance institutions and NGOs that act as intermediaries for financing the needs of eligible entrepreneurs in the lower segment of the society. These term loans can be repaid every month, quarter, or at intervals of 6 months. The total repayment period cannot be more than 3 years and cash credit loans should be renewed on an annual basis.

(c) Axis Bank – Axis Bank offers loans to microfinance institutions that financially empower low-income earners and micro-entrepreneurs. The bank has partnered with several MFIs across the country. Term loans are offered by the bank to MFIs that extend this to the eligible borrowers.

(d) DCB Bank – Development Credit Bank (DCB) offers two types of products as part of micro financing. These are term loans and loans to MFIs for on-lending purposes.

3.11.8 Documents Required for a Microfinance Loan

Although the documentation required for getting a microfinance loan varies between lenders, the following are the documents that are usually needed:

(a) Updated application form

(b) PAN card, copy of Passport, ration card

(c) Proof of address

(d) Passport-size photos of the applicants and co-applicants

(e) Track record of repayment

(f) Bank account statements for the past 3-6 months

3.11.9 Criticism of Microfinance

Microfinance has been lauded by many, as it is a clear passage to end the cycle of poverty, aid the marginalised sections, decrease unemployment, and improve their earning power. However, it has also received criticism from certain corners, as it was argued that microfinance actually makes poverty worse. The fact that some borrowers of microfinance use these loans to pay off their existing debts or fund their basic necessities reinforces these arguments.

The situation is more adverse in countries like South Africa where majority of micro-finance loans are consumed by the borrower for basic necessities. When borrowers do not generate new income from the initial loan, they are forced to take out more loans to repay the former. This simply snowballs into a bigger debt trap.

3.11.10 Thought-provoking Facts on Microfinance

(a) It is seen that mobile phones are increasingly being used as banking channels in the micro-finance market all around the world. It is making headways in most of the countries such as United States of America, Kenya but it has not yet found popularity as a banking channel in the remote areas of India.

(b) Women have become major borrowers of micro-finance all across the world. Most of these women resides in rural part have also taken the lead.

(c) The Indian micro-finance industry has been growing the fastest when compared with other developing nations such as Bangladesh, Vietnam and Peru etc.

(d) Microfinance loans have high repayment rates. This is clearly proof of the effectiveness of this concept of empowering the population.

3.11.11 Statistical Data

The table below indicates the percentage distribution of loans from SHGs for the purposes it has been distributed:

Table: 3.1 Percentage distribution of loan by SHGs

(Source: Primary data, RBI)

Sl No	Purpose	Share in Amount (in Percent)	Share in Number (in Percent)
1. Directly Income generating activities		**52**	**28**
	1.1 Agriculture	12	05
	1.2 Livestock	01	01
	1.3 Business/Shop	39	21
	1.4 Silk Business	14	06
2. Consumption related Activities		**44**	**70**
	2.1 House Construction	0.3	0.3
	2.2 Education	06	06
	2.3 Health	36	61
	2.4 Ceremonial Expenditure	02	02
	2.5 Others	0.05	0.04
3. Not Reported		**04**	**03**
Total		**100**	**100**

CHAPTER IV

MICROFINANCE INSTITUTIONS: A COMPARISON WITH NON BANKING FINANCE COMPANY

India is a country with huge population. Banks, in spite of having increased their presence have certain limitations as they cannot open branches in remote and inaccessible places. This is why to meet banking requirements of the people, there are many NBFCs operating mainly in rural parts of the country.

4.1 NBFC – in India:

The Non-Banking Financial Companies has been performing an exceptional role in the economy by providing numerous types of financial activities. NBFCs are actually a diverse group providing several services extending from micro finance to insurance. They provide insurance, gives MFI loans, chits etc.

In the recent years the RBI is levying high regulations on NBFCs. Some of the regulations are as hard as that of the banks. Actually, there is a tendency of imposing almost all regulatory requirements of banks in the NBFC sector. This is because the failure of big NBFC is dangerous to the economy and faith of the society as well. The NBFCs are also nicknames as shadow banking sector.

NBFCs and MFIs are providing banking facilities. There are certain differences between the two entities which have been explained below:

4.1.1 Non-Banking Financial Company – A Financial Institution:

Non Banking Financial Company is nothing but a financial institution to provide financial services to recognised as well as unrecognised sectors. As defined by the RBI, NBFC is a company registered under Companies Act 1956 and Companies act 2013, engaged in the business of loans and advances, acquisition of shares/socks/bonds/debentures/securities issued by Government or other securities which is marketable of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principle business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

In the above paragraph further principle business can be explained. Financial activity as principle business is when a company fulfils the following conditions:

(a) Financial assets constitute more than 50 percent of the total assets,

(b) Earnings from financial assets constitute more than 50 percent of gross income.

The RBI has not defined the Principle business under the Act but for the purpose of the financial activity, it has set conditions to be fulfilled before taking licence. In layman's language it is the company providing financial services alike Banks. Though the functions of NBFC looks similar to Banks there are some activities which cannot be carried out by the NBFC which are as under:

(a) Acceptance of Deposits

(b) Issue of cheques drawn and being a part of the payment and settlement system

(c) Deposit insurance facility of deposit insurance and Credit Guarantee Corporation

RBI regulates the NBFC. RBI from time to time issues the various regulation for the operation of NBFC. All the NBFCs shall take the license from the RBI before commencing the businesses.

The NBFCs are classified under various types such as Asset Finance Company, Investment Company, Loan Company, Infrastructure Finance Company, Micro Finance Institution etc.

4.2 Micro Finance Institution – A type of NBFC:

Micro Finance Institutions are nothing but a type of NBFC who generally provide loans and other financial services to the poor sections of society. Generally they operate in the rural areas and among low income urban people by excluding small loans.

Banks provide funds to the MFIs and thereafter MFIs lend to low income households based on the group lending method. The RBI has extended its regulation and supervision to some of the MFIs that qualify certain criteria. The main objective is to stable MFIs.

Following conditions have to be fulfilled by NBFC-MFI while applying for taking the license:

(a) NBFC-MFI shall not take any deposit. It should be non-deposit under NBFC-MFI,

(b) It should maintain Net Owned Fund (NOF) to a minimum of Rs 5 crores,

(In case of NBFC-MFIs registered in the North Eastern Region of the country, It shall maintain Net Owned Fund to the tune of Rs 2 crores)

(c) Qualifying assets shall not be less than 85% of its net asset,

(d) A minimum of fifty percent of loan should be given for productive purposes.

Loans provided by the NBFCs meets following specifications:

(a) The loan must be given without any collateral,

(b) NBFC-MFI can give loans to the borrowers with a rural household annual income not exceeding Rs 1.00 Lakhs,

(c) NBFC-MFIs can give loans to the borrowers with an urban and semi-urban household income not exceeding Rs 1.60 Lakhs,

(d) Total indebtedness of the borrowers shall not exceed Rs 1.00 Lakh. Loan if any availed towards meeting education and medical expenses shall be excluded while calculating indebtedness of the borrowers.

4.3 NBFC vs MFI:

The differentiation between NBFC and MFI can be further explained as under:

(a) NBFC provides banking functions at a scale smaller than that of banks, MFI exists at a level that is more than that of NBFC.

(b) NBFC means a non-banking financial company that performs functions similar to banks in the absence of banks in rural areas.

(c) MFI meant for micro finance institutions which operate at a further smaller level than that of NBFC.

(d) MFI provides very small loans to the underprivileged sections of the society.

(e) NBFC aim is to provide big loans like Rs 50,000/- and upwards in which target customers are middle class people, businessmen etc.

(f) The micro finance’s main aim is to give small loans like 10-20000 rupees to poor people and Self Help Groups.

CHAPTER V

EVALUATION OF MUDRA SCHEME IN PATNA AREA

5.1 General

This chapter discusses a case study of two districts neighbouring Patna Area. As discussed in the Chapter 1, primary data have been collected from two neighbouring district of Patna area. The objective of conducting this study is to find the outreach and effectiveness of MUDRA Scheme in the rural areas of the Bihar state. Efforts have been made to study the success shown in the annual report of MUDRA in respect of states of the country in which Bihar is one of the better performed states.

Data are collected through various sources as mentioned in chapter 1. The sources have been interviewed and observed. Bihar is one of the backward states on most of the parameters. About 80 percent of state population is employed in agriculture which is much more than the national average of approximately 61 percent. The state is not doing well on the industrial front in comparison to other developed states of the country. As per 2011 census 88.71 percent of population lives in rural area. The annual report of Reserve Bank of India published in 2013 shows that 33.7 percent of Bihar population is below poverty line and ranked at 24th position among 28 states of India, which is much below the national average of 21.92 percent. However, in the annual report of MUDRA scheme, Bihar is ranked at the sixth position. It shows that the state is doing very well on this front and the people of the state is ready to come out of poverty by doing their own small scale businesses by taking loans under MUDRA scheme. Data from only two neighbouring district of

Patna area has been collected, since the time duration in the APPPA programme for the dissertation was not sufficient to visit area very far from Patna. The two nearby districts East Champaran and Muzaffarpur from Patna, capital of Bihar, have been selected based on the backwardness of the area.

5.2 East Champaran

East Champaran district is 152 Km away from Patna and Motihari is the district Head quarter of the district. It is situated north west in the state and neighbouring Nepal in the north. The Total population of the district as per 2011 census is 51 Lakhs. The literacy rate is 58.26 percent and sex ratio is 901. The district has strong Agriculture background.

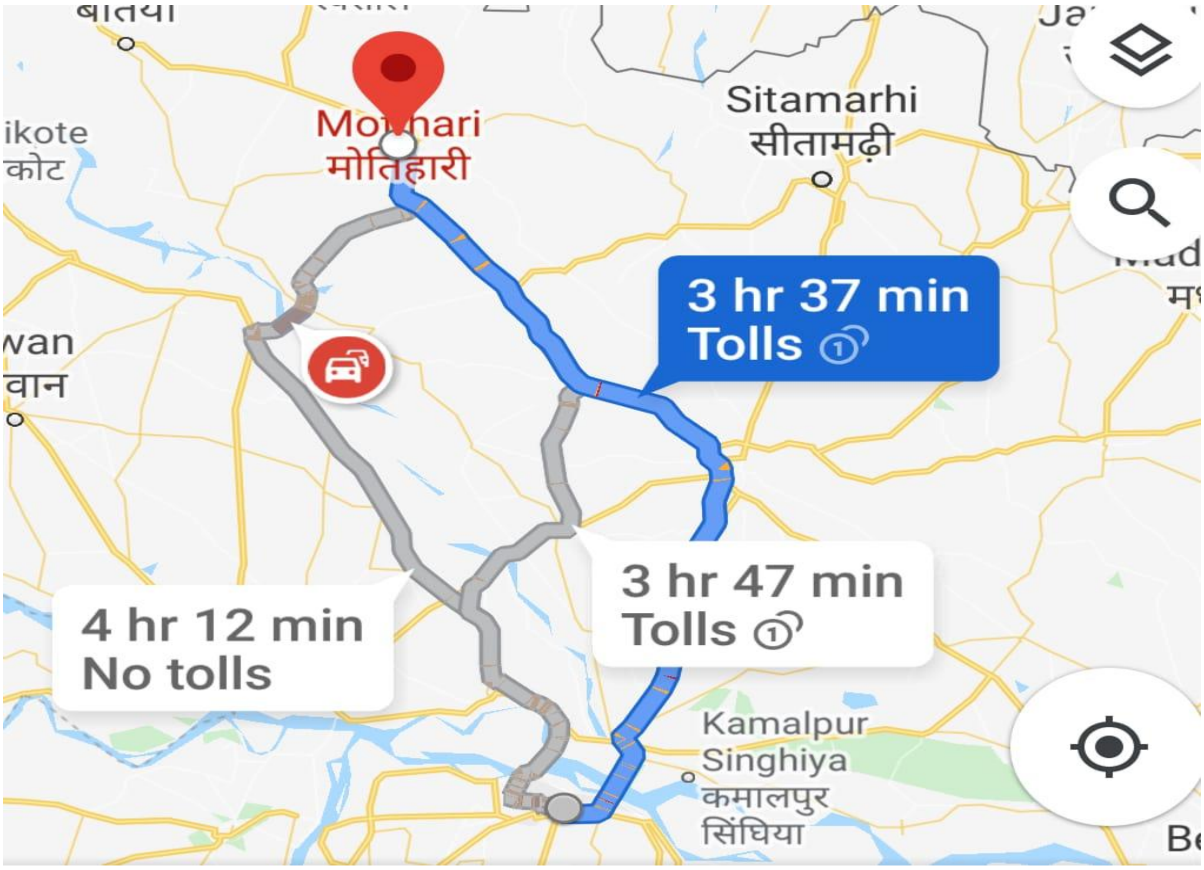

Fig 1. Route Map of Motihari from Patna

The MUDRA Scheme in East Champaran district is quite successful since its inception though the district is largely remains dependent on agriculture. The people in the district are well aware of the scheme and different sections of the society have been benefited from the scheme. The number of beneficiaries from the MUDRA scheme kept on increasing each year and the amount disbursed has also increased every passing year. The success of the MUDRA scheme in the East Champaran district can be viewed from the table ahead:

Table 5.1 PROGRESSES IN MUDRA SCHEME MADE TILL DATE:-

(Source District Administration)

DISTRICT: EAST CHAMPARAN **STATE : BIHAR**

Sl. No.	Fy Year	Number of Borrowers	Amount Sanctioned (In crores)	Amount Disbursed (In crores)	Remarks
1	2015-16	447	31.00	28.00	-
2	2016-17	2919	52.00	48.00	Increased
3	2017-18	25750	183.00	182.00	Increased
4	2018-19	11402	72.00	71.00	Decreased
5	2019-20 Till Date	6291	78.00	65.00	-

In the first year in which MUDRA scheme has been launched has not seen the popularity which is quite understandable due to lack of awareness regarding the scheme among the general population. The number of borrowers in the subsequent years increased tremendously and the disbursed amount has also seen a considerable increase.

It has also been observed that every sections of the society got the benefit of the MUDRA loan and the table below shows the participation of each and every section of society be it OBC, SC/ST and the women:

Table 5.2 CATEGORY WISE BORROWERS IN MUDRA SCHEME:

(Source District Administration)

DISTRICT: EAST CHAMPARAN **STATE : BIHAR**

SL NO	FY YEAR	UNRESERVED	OBC	SC/ST	WOMEN	REMARKS
1	2015-16	247	143	49	8	
2	2016-17	1079	1109	379	352	
3	2017-18	4152	10209	4179	7210	
4	2018-19	5503	3306	1368	1225	
5	2019-Till date	3083	1864	739	605	

5.3 Muzaffarpur

Muzaffarpur district is 74 Km away from Patna. It is situated north to the Patna. The Total population of the district as per 2011 census is 48 Lakhs. The literacy rate is 65 percent and sex ratio is 900. The district has strong Agriculture background and a number of sugar mills are there in the district.

The district has many industries ranging from small to large. Prabhat Zarda Factory, Ganesh Foundries Limited, Bharat Wagon and Engineering Limited, N.T.P.C., Kanti Thermal Power Station, Bihar Drugs & Organic Chemicals Limited, units of Leather Development Corporation, Muzaffarpur Dairy, a unit of the Bihar State Dairy Corporation unit Bihar State Cooperative Milk Producers' Federation Limited are there in the district. Muzaffarpur producing Sudha brand packaged milk which is the major industries located in Muzaffarpur city and its periphery. A large number of populations of the district got the employment in these industries. A few cottage industries are also there. The most important item that is manufactured in Muzaffarpur town is railway wagon. Muzaffarpur city is an important centre for the wholesale cloth trade. Britannia has also established a plant here.

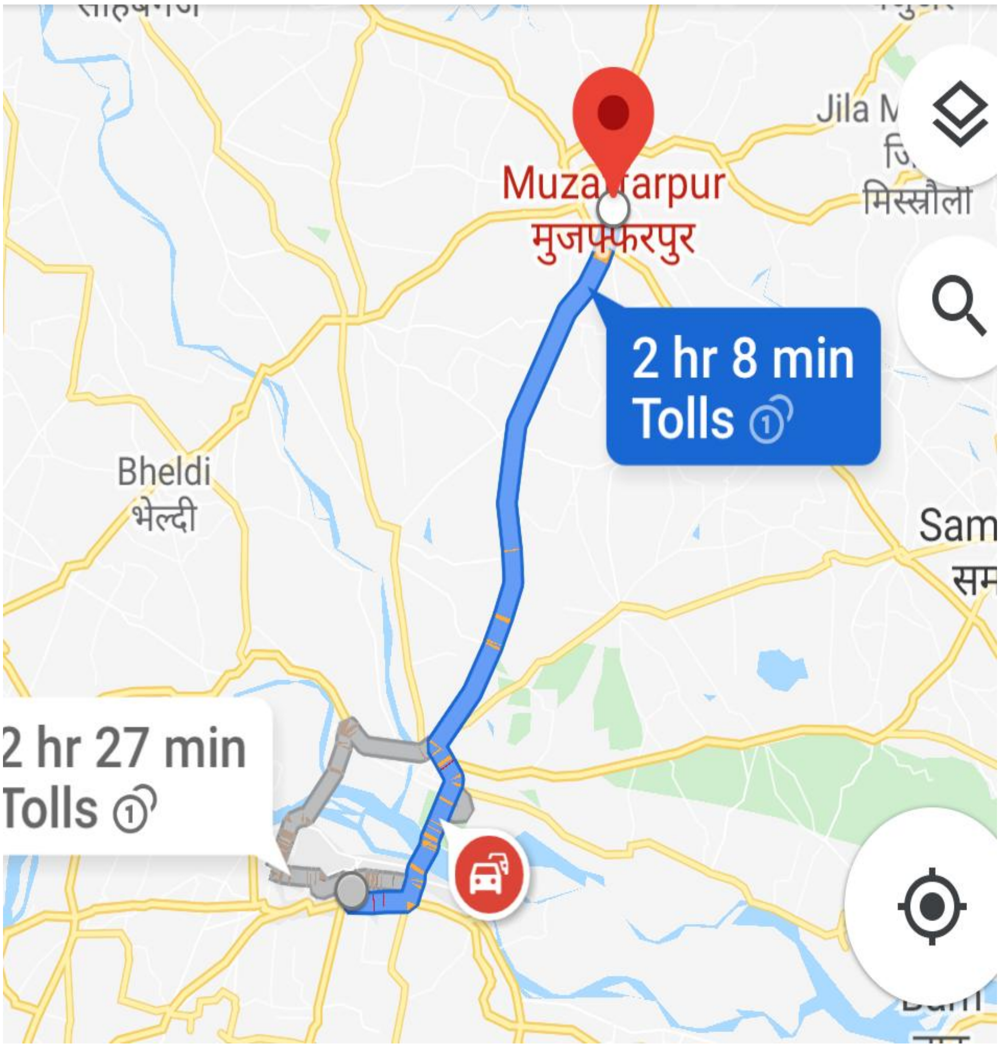

Fig 2. Route Map of Muzzafarpur from Patna

In spite of the above industries already running in the district people has generated interest in taking MUDRA Loan. They want to be self dependent by availing the loan facility extended by the Government. The success of the MUDRA scheme in the Muzaffarpur district can be viewed from the table ahead:

Table 5.3 PROGRESSES IN MUDRA SCHEME MADE TILL DATE:-

(Source District Administration)

DISTRICT: MUZZAFARPUR **STATE : BIHAR**

Sl. No.	Fy Year	Number of Borrowers	Amount Sanctioned (In crores)	Amount Disbursed (In crores)	percent Increase (Borrower/Amount Disbursed)
1	2017-18	26641	477.46	477.46	
2	2018-19	36646	580.72	580.72	37.55/21.62
3	2019-20 Till Date	49782	664.68	664.68	35.85/14.46

The initial two years data is not available with the district administration. However the increase in the number of borrowers and the amount disbursed in the subsequent years shows the popularity among the masses.

5.4 Key Findings of the study

The analysis of focussed group discussions held and other observations resulted into following key findings of the study.

(a) Inclusiveness of large population

It was observed that all the sections of society be it youth, women and weaker sections all get benefited from the MUDRA scheme. Since the launch of the MUDRA Scheme on 08 April 2015, the number of beneficiaries keeps on increasing in all the sections of the society. The amount disbursed also kept on increasing in the each passing year.

(b) Documentation Problem

The documentation provisions for taking loan have been made very simple so that everybody who wants to start a new business or to expand their existing business can get benefitted from the scheme. However, because of the rural background and women were not participating earlier in any other work other than the household work or in the family business, documents are not available with them and it is very difficult for them to get loan because of non availability of documents.

(c) Bank Officials being inadequately computer literate

In the rural areas cooperative banks are available. The officials dealing in such rural areas are not adequately computer literate. During the visit, I came across a situation where the manager posted was of more than 58 years of age and not able to do work on computers though it has been provided in almost every branch. He has employed a private person to handle the computer and shared the identity and password with the private person. That person has misused it and transferred the funds in unauthorised accounts. The branch manager has been arrested on charge of misusing the funds and an enquiry has been setup. The fallout is on the public there and at present disbursement of loan has been stopped till the finalisation of the enquiry. In such situation the society is deprived off from taking benefit from the Government schemes though available.

(d) Non availability of local market

The local market for consumption of the products is not available to such entrepreneurs. Markets which are available are not able to purchase the products manufactured by these small entrepreneurs. Either the local market are not well equipped to purchase the products or provisions for purchasing such products by any centralised agencies who can further sell to the bigger market are not available.

(e) Government intervention not available

Government intervention is lacking in purchasing the products manufactured by the MUDRA loan beneficiaries. The beneficiaries who are availing the loan are not in a position to sell the products themselves. Government intervention is missing in such scenario where these loan holders are not in a position to sell their products, and they may not remain motivated in longer run and later on repaying the loan might become difficult for such entrepreneurs.

(f) General Happiness with the Scheme

People are in general very happy with the scheme especially the women and the weaker section of the society. They feel that they can now start a new life by availing the loan facility and become a direct earning member of the family themselves. Rural population are generally dependent on agriculture which is not producing enough for the sustainability of entire family as the land holding has become very less because of increase in population. They see the MUDRA loan as an opportunity to start a new business that can help them financially in addition to the agriculture profits.

5.5 Socio-Economic Aspect and Rural Development Due to MUDRA Scheme and Conclusion

The MUDRA Yojana has made it possible that all the sections of society name it young, women or the weaker sections can become entrepreneurs and work accordingly to become an earning member of the family. They have an opportunity to become a job provider rather than job seeker. The women in the rural areas are mostly doing the household jobs and they are not in a position to contribute directly in the earning of the family. They are not in a position to move out to earn because of social stigma and also their absence from home will be felt by the entire family member. Women can avail the MUDRA loan at their place and they can start their work from home itself. The women beneficiaries are highly satisfied with this system because they can become a direct earning member of the family along with doing their household work. The literacy rate among women is increasing in the rural areas and their education can be utilised without migrating from their native place. This way they are not only uplifting the socio-economic condition of their family but also benefitting the society and the country as a whole.

The condition of the weaker section of the society is not good in Bihar. They are not able to achieve the same status both financially and socially as of the upper section of the society. They are much happier to avail the loans under MUDRA Yojana and they feel themselves as a part of this system. They are able to start their own work and contributing in the development of their family and benefitting the society and the nation.

The interaction with the beneficiaries of MUDRA scheme in the rural areas of the adjoining districts of Patna area shows that the scheme is working satisfactorily. Each year the number of beneficiaries is increasing and the amount of loan being disbursed is also increasing. Bihar state is doing very well and people are quite happy to get benefitted through MUDRA scheme. All the beneficiaries talked were happy with their work as entrepreneurs and the popularity of the scheme is evident as the scheme is able to meet the target set by the government.

CHAPTER VI

CONCLUSION AND RECOMMENDATIONS

6.1 General

Microfinance has succeeded in making inroads in most part of the country. The people of the country are well aware of the various Government schemes being launched and making use of the ongoing schemes for their livelihood. The commercial banks are not available in the remote part of the country, but it is not a bottleneck in progressing and easing out the lives of the new generations. In the last five years, since the launch of the MUDRA scheme, it has created strong legal and regulatory framework for providing loans to the youths, women and weaker section of the society. MUDRA has seen a significant increase in refinance to banking and Non-banking finance companies and has been able to achieve the target set by the Government.

6.2 Conclusion

The major concluding observations can be summed up in following paragraphs.

The first point is that in comparison to the bank credit in India the expansion of micro finance has remained a minuscule. The credits to SHGs constitute even less than one percent of the total bank credit from the scheduled commercial banks. Secondly, The last five year data available show that there has been a falling trend in the percentage share of bank credit to all the loan accounts held by SHGs. Thirdly, there has been a remarkable regional disparity in terms of the spread of micro finance in the country. The southern region of the country is way ahead of any other regions of the country not only in terms of the absolute number of SHGs formed there and the bank credit supplied to these SHGs but also in terms of its coverage of poor persons residing in this region. Since micro finance is a tool essentially meant for providing bank credit to the poor sections of the population, a comparison with the number of benefitted poor persons is very much useful.

The women in India generally engaged in house hold works. Most of them are generally not involved in the financial matter of the family. The micro finance has been primarily driven towards them. The coverage of women population under the existing banking network can also be an indicator of the spread of micro finance. The sex ratio in India is about 930 females per 1000 male population. However, there are only 21 loan accounts per 10,000 women in comparison to 118 loan accounts per 10,000 men. In contrary to this, the amount of bank credit outstanding per women works out to Rs 20 whereas Rs 100 is outstanding per man. The disparity in terms of deposits is little less but the wide gap gets reflected in the financial inclusion of women in comparison to men.

In one of the recent study by All India Debt and Investment, which has been conducted in the district namely Kancheepuram in Tamilnadu, some major observations have been made where SHGs are functional since more than five years. The surveyed SHGs members are mostly relying heavily on informal sources of finance. The moneylenders present in that area is mostly giving loans to them despite their association with SHGs are longstanding. In the rural areas of the district the SHG members are getting loans from the moneylenders rather getting it from SHGs. Further, the rate of interest of SHG loans is ranging between 24 and 36 percent per annum, which is almost double the rate of interest on bank credit reported by SHG members and is fairly comparable to the rate of interest reported on moneylender's loans. Lastly, more than half of the surveyed SHGs has reported that there is dropouts of up to 3 members per group and the major reason for such dropout as reported by SHGs is the inability of repayment by the concerned members on time and hence, either the members dropped out on their own or they have been asked to leave the organisation. In such scenario, majority of these members just leave their savings with the groups which might have been used to settle their loans.

The spread of micro finance in India is significantly limited. The continued dependence of women members belonging to mature SHGs on informal sources collaborate emphasis regarding the spread of micro finance. The high interest rates on SHGs loans also points towards the affordability of micro finance for the poor people borrowing, who are expected to have a very high rate of return from the business they are doing in order to just cover the interest cost. The observations made here does not reflect the considerable scope for the micro finance to evolve as a means of financial inclusion that is easily accessible and affordable for the excluded groups of people or the excluded region that can help loosen the grip of informal sources of finance and bring these excluded sections of the society permanently into the ambit of formal finance.

The study shows that the MUDRA yojana which has been launched to include the excluded society has been able to make inroads. The study which has been conducted in the rural areas of the country near Patna has revealed that all the sections of the society name it OBC/SC/ST or the women have been taking interest in the scheme. The success of the scheme has been reflected in the increasing number of the borrowers each year and the total amount they are borrowing is also kept on increasing every passing year. Since it has not yet reached at any matured level there is a need to keep vigil on this and the beneficiaries should be monitored closely as to what they are doing with the borrowed amount, are they in a position to repay the loans in time.

To conclude, the findings of the study reflect that each section of the society is getting matured enough in fulfilling their goal. They are taking interest in the various Government schemes being launched and with the help of the Government they are in a position to be a part of the financial inclusion in the society.

6.3 Recommendations

Unlike the developed countries, India is not able to produce enough to meet the need of its population. People aspirations are also not getting fulfilled as the rate of creation of job is not in commensuration with the rate of increase in the population. In result, a large section of the population remains under-employed as they are not getting the job as per their qualification. The rural population remains depended on agriculture which is not yielding enough money to sustain them. The people need to be self employed in a big way so that they can become entrepreneurs and become part of the development of the country. Micro financing in a big way can help in this and people aspirations can be fulfilled significantly. Some recommendations in this respect are given in succeeding paragraphs.

(a) Proper Regulation should be made

The regulation was not needed in the initial phase. The institutions which were involved in giving loans were free to bring innovations in its loan disbursement method. Now the microfinance has become mature and a large number of financial institutions are involved in loan disbursement to a large population. A proper regulation is needed now to protect the interest of the both the stakeholders, namely financial institutions and the borrower of the money.

(b) Borrowing should be made affordable

The financial institutions are generally present in any banking form in the urban area of the country. These financial institutions are however missing in the rural part of the country because they are not sustainable in such areas. To overcome this, microfinance is the only left option in the rural part of the country. The people residing in the rural areas are mostly poor and they are not able to repay the loans taken at higher interest rates. Therefore, to make the poor people self employed by providing loans at an affordable rate is the only option left. Hence the borrowing of loan should be made in such an affordable way so that they can borrow loan and remain able to repay the loans.

(c) Investment channel should have different options

Commercial banks are working for debt and equity funding. Sometimes they are not in a position to disburse loan in absence of repaying surety. In such a situation different mode of investment channel should be explored. In the present Government, compulsory expenditure in the form of Corporate Social responsibility (CSR) has been made. There are situations when such fund remains unutilised. As the purpose of empowering the poor population of rural areas is similar to expenditure on CSR, the same unutilised funds can be made available for disbursement under microfinance. Creation of funds in line with microfinance equity fund will also create an investment pool.

(d) Introducing changes in Business Model

The new models of business should be introduced side by side the existing models. The loans under micro financing should be disbursed in such a way that the product should remain customer oriented. The products which can get consumed by the larger population should be given priority for manufacture. The risk involved get minimised in such scenario. The borrowed money also gets repaid if the product is sold.

The microfinance institutions should reach to the every citizen's doorstep that is unbanked. The population in such areas are generally poor and providing loans to such person will uplift their living standard and make them independent.

There is a mobile app namely Jan Dhan Darshak which locates the relevant financial services available in the vicinity. This helps in deciding the type of loan which they can avail.

(e) Making Microfinance digital

The number of mobile phone users is increasing day by day in the country. As per data available, in 2020 India is having 40 crores mobile phone users. This is increasing exponentially each passing year. To make the micro financing digital this will help in a broader way.

One of the African countries, Senegal, has already using the Agency Banking Model by a financial adviser Baobab. He has created his own agent network to expand its geographical coverage and outreach to rural areas so that significant investment in opening the new branches can be reduced. It is using Secure Web based agency banking platform and mobile application running on tablets for the agents, who manages its own float and can facilitate the client in their transactions such as in deposits, withdrawals, transferring the amount, repayment of loans, bill payments and automatic loan renewals.

The rural population of the country has the access of mobile phones and that can be best utilised in microfinance field. They are not in a position to move to the banking institutions but they can utilise their mobile phones in dealing with the various options available in the microfinance.

The field supervision such as availability of required market, any new schemes of micro financing and the loans available can be tapped by using the IT equipments. It will penetrate into the larger rural population and in the end they get financially empowered and can work independently.

(f) Field Supervision

Field visit is one of the basic tools to monitor the conditions on ground and initiate any corrective measures as on required basis. This should be in addition to the proper regulation of micro finance sector. The close monitoring on ground will not only check the performance of the ground staffs of various MFIs but also helps in monitoring the recovery practices being followed. This will ultimately results into encouraging the MFIs to abide by proper code of conduct and then the efficiency of these MFIs will increase significantly. Since the sector is very vast, the feasibility of conducting such supervision and the cost involved in doing the physical check remains an issue.

(g) Women Specific Schemes

A very large population i.e. almost 50% in the form of women are largely illiterate in financial matter. In the Indian society the financial matter are being dealt by the men. Women's knowledge in dealing with the financial matter is very limited and also they keep themselves aloof or so by the male members of the family. India is at 70th position in women entrepreneurship among 77 nations in which study have been made. The gender inequality is much more visible in finance. Therefore there is a need to launch such financial schemes which remain oriented towards women. The nation as a whole will not prosper unless and until the women are made self sufficient in dealing with financial matter. The loans disbursed to the women can be utilised by them in their native location and the men can work anywhere they wish to.

Empowering women population by giving financial assistance will not only empower their family but also other women in the vicinity which generally remain unutilised most of the time. The MUDRA scheme launched in 2015 is one such scheme through which approximately 15 crores women are getting benefitted in less than six years of its launch.

(h) Government intervention for purchase

There should be Government intervention in purchasing the products manufactured by the loan beneficiaries. Persons, who are availing the loan, are not in a position to sell the products themselves. Government must intervene in such scenario where these loan holders are not in a position to sell their products themselves, so that they remain motivated and keep on repaying the loan and does not become Non Performing Asset (NPA).

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