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## Research Paper

## STATUS OF MICRO FINANCE IN RAJASTHAN: PROBLEMS AND PROSPECTUS

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### ABSTRACT

**M**icrofinance has made tremendous growth in India over the years and it has become a household name in view of the multi-pronged benefits with regards to services for poor in our country. Microfinance services are provided mainly by two different models viz., SHG-bank linkage model and MFI-bank model. Out of these two models, SHG-bank linkage model has emerged as the more dominant and widely accepted model due to its adoption by formal financial institutions namely, Commercial Banks, Regional Rural Banks and Cooperative Banks. The MFI-bank model is also gaining importance due to its massive supports by various private sector and foreign funding agencies. The present study deals with progress under micro finance in Rajasthan and focus on SHG-Bank linkage model. The SBLP has made an adventure in the economy by transforming the formal banking services to rural poor and needy people particularly women group. Due to wide spread rural bank branch network, the SHG-Bank Linkage Programme is very suitable in the Rajasthan context. This paper is an attempt to analyze the SHGs movement in Rajasthan as these are helpful in order to alleviate poverty and women empowerment and also describes the problem and prospects regarding micro finance. The objective of this study is to evaluate the impact of micro finance programme in Rajasthan state. The study results proved that micro finance programme has been recognized as one of the most successful and rapidly growing programme in Rajasthan state.

**KEY WORDS:** Growth, Microfinance, Models, Self-Help Group, SHG-Bank Linkage Programme.

### INTRODUCTION

In Rajasthan there is a lack of access to productive capital. The poor often find themselves in a vicious circle: producing at a subsistence level makes it difficult to accumulate savings or other assets, thus making it difficult either to invest in productive resources or to gain access to credit in formal capital markets, which leads to low productivity and continued poverty.

However, Government efforts to deliver formal credit to rural areas have included setting up Regional Rural Banks (RRBs) or ordering commercial banks to loan a certain minimum percentage of their loan portfolio to rural borrowers. However, such efforts have generally

failed because it is often politically difficult for Governments to enforce repayment of loans, and because the below-market interest rates that have been charged induce non-price rationing of loans.

Over two decades microfinance has been evolved and accepted as a means to relieve poverty in many states including Rajasthan in India. Microfinance through SHGs emerges as one of the better option in view of the low transaction cost, wider outreach and availability of service at the doorstep itself. A Self - Help Group (SHG) is a small group of people from a homogeneous class who come together for addressing their common problems through self and mutual help.



Usually, the number of members in a SHG does not exceed twenty.

Technically, microfinance is defined as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural areas, semi-urban and urban areas. Anyone availing microfinance has to engage in some productive activities that will generate some income. So, microfinance provides financial services to the poor and low income people, whose low income standing excludes them from formal banking system.

The impact of microfinance programmes in Rajasthan has indicated increase in income levels, decreased dependence on local money lenders, increase in expenditure on children's education, health, agricultural inputs and production, and not to forget has improved women's self-confidence and increased social capital.

### **OBJECTIVES OF THE STUDY**

The present study was undertaken with the following specific objective:-

1. To examine the progress of micro finance programme in Rajasthan.
2. To examine the role of microfinance in providing credit to the weaker sections of the society and enhancing saving capacity of the people.
3. To identify the gaps in the on-going microfinance programme.

### **PROMOTION OF SHGs IN RAJASTHAN**

A Self Help Group (SHG) is a group of about 10 to 20 people, generally women of homogeneous background, who come together to full fill a common objective, which most of the time is savings and credit. The members of SHG develop a credit history while undertaking internal-lending among them and have a social capital to boost. SHG movement was initiated by voluntary organisations, NABARD and Department of Women and Child Development (DWCD). These institutions have contributed significantly to cover more and more households to be a part of this movement. With the objective of alleviating poverty, the State

Government has been implementing programmes such as SGSY, DPIP, MPOWER etc. The largest SHPI in the state is DWCD with about 2.3 lakh SHGs across the state. NABARD along with NGOs promote about 89 thousand SHGs. NABARD promotes about 14 thousand SHGs. However, it is difficult to predict and report the exact number in the absence of a formal reporting mechanism. There are cases of double counting, and confusion as how many SHGs that exist in the State. Below are a few projects promoted by various SHPIs through SHGs in Rajasthan.

Microfinance sector is operated mainly through two channels in Rajasthan

1. The SHG Bank Linkage Programme (SHG-BLP), and
2. The Micro Finance Institutions (MFIs)

#### **1. SBLP model in Rajasthan:**

The SHG – Bank Linkage Programme was started as an Action Research Project in 1989 which was the off shoot of a NABARD initiative during 1987 through sanctioning Rs. 10 lakh to MYRADA as seed money assistance for experimenting Credit Management Groups. In the same year the Ministry of Rural Development provided PRADAN with support to establish self-help groups in Rajasthan.

The experiences of these early efforts led to the approval of a pilot project by NABARD in 1992. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, banks and NGOs. This was reviewed by a working group in 1995 that led to the evolution of a streamlined set of RBI approved guidelines to banks to enable SHGs to open bank accounts. This was coupled with a commitment by NABARD to provide refinance and promotional support to banks for the SHG - Bank Linkage Programme.

Initially there was a slow progress in the programme up to 1999 as only 32,995 groups were credit linked during the period 1992 to 1999. Since then the programme has been growing rapidly and the number of SHGs financed increased. At present 245903 no of SHGs linked with bank for saving purpose and 32590 SHGs linked with bank for credit purpose.

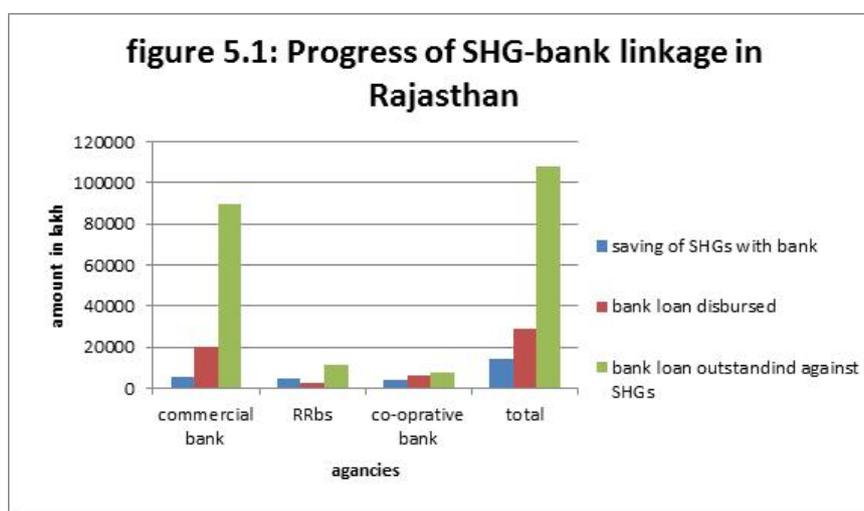
### Status of SHGs bank linkage programme in Rajasthan in 2015

Particulars		Commercial bank	RRBs	Co-operative bank	Total
Savings of SHGs with Banks position as on 31 March 2015	Number of SHGs	106796	64602	74505	245903
	Amount (Rs. Lakh)	5689.51	4569.51	4120.41	14379.43
Progress under Microfinance - Bank Loans disbursed position as on 31 March 2015	Number of SHGs	11538	3735	17317	32590
	Loans Disbursed Amount (Rs. Lakh)	19887.52	2744.18	6289.10	28920.80
Progress under Microfinance - Bank Loans outstanding against SHGs position as on 31 March 2015	Number of SHGs	84020	17422	18165	119607
	Loans O/S Amount	89371.25	11118.33	7529.47	108019.05

(Source: status of micro finance 2015, NABARD)

Table shows that during the year 2015, banks (commercial+co-oprative+RRBs) disbursed 28920.80 lakh loans to 32590 SHGs. whereas bank loan outstanding against SHGs is 108019.05 lakh to 119607 SHG. On the contrary saving of SHGs with bank is 14379.43 lakh. As table no 5.1 shows that among these

three agencies commercial bank occupied highest position to ensure financial inclusion through micro finance. These agencies engaged themselves in the financial activities of micro finance in order to ensure financial inclusion.



## 2. The Micro Finance Institutions (MFIs):

Another model that has been under implementation in the Rajasthan in respect of microfinance is financing of Individuals and SHGs through MFIs. This model covers financing of MFIs by banking agencies for onwards lending to SHGs and other small borrowers. Micro Finance Institutions (MFIs) act as an important conduit for extending financial services to the microfinance sector in the country by raising resources from Banks and other institutions and extending loans to individuals or members of JLGs.

## MICROFINANCE INSTITUTION (MFI) POSITION IN RAJASTHAN

In Rajasthan, Around 2007, Microfinance Institutions (MFIs) started their journey and by March 2016, (Micrometer September 2016 issue) the total gross loan portfolio in the state is 1,358 crore with 7.8 lakh active borrowers, there are 1,622 employees working. loans amount disbursed 464 crore during the financial year 2016-17. The MFIs those operated during the FY 2016-17 in the state were Annapurna Asirvad ,BFIL, Disha, Janalakshmi, Light, Midland ,Mpower ,Satin ,

Share, Shikhar, Sonata, Swaadhar, SVCL, Ujjivan. In Alwar alone there are 7 MFIs (11 branches) which are in operation is the highest in the State, closely followed by Jodhpur and Jaipur each having 6 operating MFIs in the district.

The impact assessment of microfinance institution programmes in Rajasthan clearly indicates the change in income level of beneficiaries; reduction of dependence on moneylenders; increase in expenditure/investment on children's education, health, agricultural inputs, increase in production and most important the increased awareness and self-confidence among women and poor.

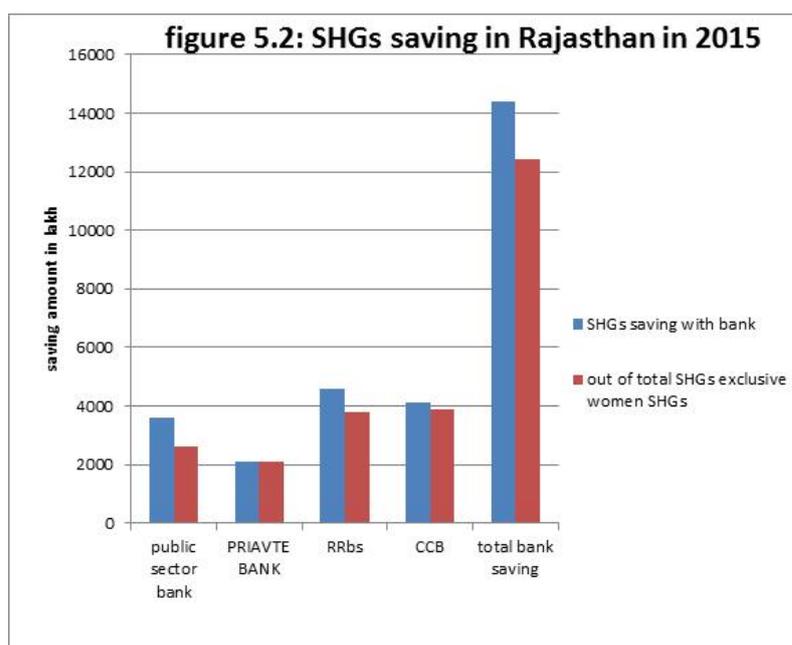
### PROGRESS UNDER MICROFINANCE IN RAJASTHAN

Since the initiation of microfinance in Rajasthan, it has made a huge progress. This progress can be studied under the following heads:

#### Savings through SHGs on 31 march 2015 in Rajasthan

	Detail of SHGs saving Linked with bank		Out of total SHGs-exclusive women SHGs	
	No of SHGs	Saving amount with bank	No of SHGs	Saving amount with bank
<b>Public</b>	82941	3593.16	68778	2614.08
<b>Private</b>	23855	2096.35	23854	2096.29
<b>RRB</b>	64602	4569.51	55617	3799.08
<b>CCB(district central co-operative bank)</b>	74505	4120.41	71065	3899.22
<b>Total</b>	245903	14379.43	219314	12408.67

(Source: Status of Microfinance in India, NABARD 2015)



When we consider all the SHGs, the highest number of SHGs linked to the banks for savings is with the public sector commercial banks (33.7%), closely followed by the district central cooperative banks (30.2%). The amount of savings with the public sector commercial banks is 24.98% of the total savings with the banks and 28.69% of the savings of the SHGs are with the CCBs. While considering the savings for SHGs with exclusively women members; the highest number of groups are linked with the CCBs (71065), followed by public sector banks (68778). But the amount saved with the CCBs is 31.42% of the total savings followed by 21.06% with the public sector bank. The graph shows that saving of SHGs with RRbs is higher in comparison to public sector banks primarily because most of the RRbs are located in rural areas and are in closer contact with the SHGs.

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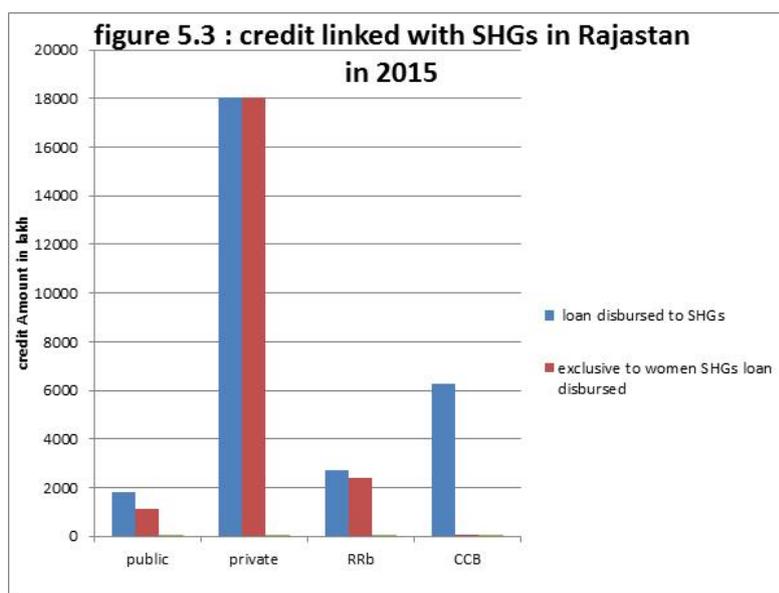
**(B) Credit disbursed during year 2015:**

The number of SHGs which took a loan in year 2015 from the banks is 32590 in number. The total amount of credit from the banks is Rs. 28920.8 lakh. The number of exclusively WSHGs with credit in the banks is 30996 with a credit of Rs. 27750.32 lakh.

**Credit linked SHGs on 31 march 2015 in Rajasthan**

	Total loan disbursed		exclusive to women SHGs	
	No of SHGs	Loan disbursed with bank(lakh)	No of SHGs	Loan disbursed with bank(lakh)
Public	2228	1824.11	1501	1123.84
Private	9310	18063.41	9310	18063.41
RRB	3735	2744.18	3359	2383.78
CCB(district central co-operative bank)	17317	6289.10	16826	6179.29
Total	32590	28920.8	30996	27750.32

(Source: Status of Microfinance in India, NABARD 2015)



The highest percentage of the total SHGs linked for credit with the banks is with the CCBs (21.74%), followed by RRBs (09.48%), public sector banks (06.30%), and private sector banks (62.48%). As table no 5.3 shows that higher blue and red section shows the importance of private sector banks extending credit through various channels in spite of the fact that they have very few branches in the State.

While considering credit for SHGs with exclusively women members; the highest number of groups are linked with the CCBs (16826), followed by private sector bank (9310). But the amount disbursed by the private bank is 65.09% of the total credit followed by CCBs with 22.26% with the RRBs 08.59%, and public sector banks 04.04%.

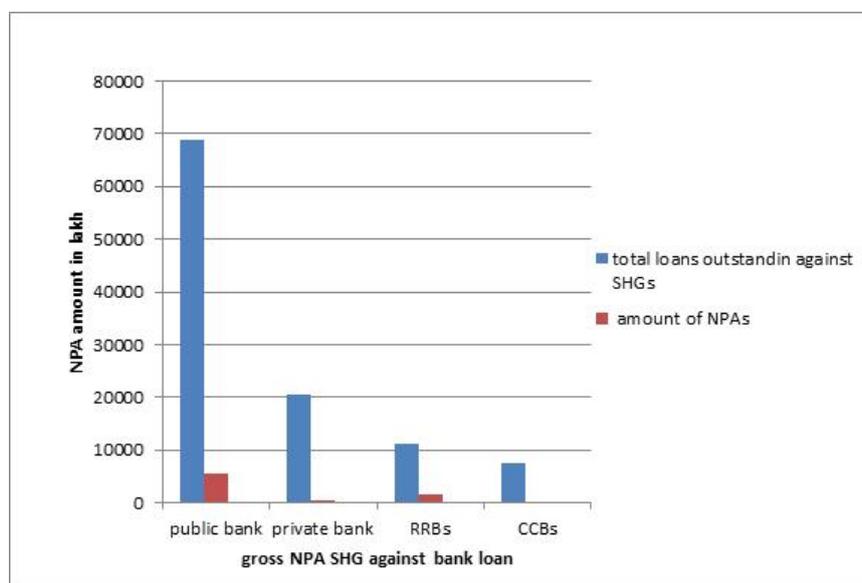
### (C) Non-Performing Assets (NPA) of Banks

A nonperforming asset (*NPA*) refers to a classification for loans on the books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days. In Rajasthan public sector commercial banks have the highest NPAs of Rs. 5610.86 lakh whereas the NPAs of the private banks are the lowest around 467.02 lakh. It is due to the fact that commercial banks provide credit easily and at comparatively lower rates than other banks. The table given below throws light on the gross NPAs of SHGs against loans granted by different banks.

#### NPA of banks in Rajasthan

	Gross NPA of SHGs against bank loan	
	Total loans Outstanding against SHGs in Rs.Lakh	Amount of NPAs
Public	68776.19	5610.86
Private	20595.06	467.02
RRB	11118.33	1727.51
CCB	7529.47	1256.59
Total	108019.05	9061.98

(Source: Status of Microfinance in India, NABARD 2015)



### Problems and Prospects regarding micro finance:

There are two type of problem. First is related to internal environment and second is related wit external environment.

1) **Internal Environment:** The first factors can be study of internal environment of micro finance institutions. Which can be further divided in to study of various internal factors which are enlisted following:

**i) Employees:**

- a) Employees are Retaining in the MFI
- b) Employees need Training
- c) Scarcity of Skilled Employees is there
- d) Employees are satisfied with Compensation and incentive system:

**ii) Client Base:**

- a) Client Turnover is good
- b) Loan defaults are there
- c) Education level of clients is low
- d) Clients are uneducated for financial services
- e) Clients complain about services

**iii) Infrastructure facilities:**

- a) Transportation facilities are there to reach customers
- b) Telecommunication facilities are good
- c) Communication due to geographic location is difficult

**iv) Costs:**

- a) High Operational cost
- b) Lack of Access to funding
- c) Loan collection method leads to delayed payment
- d) Fraud is a problem for our business

**2) External environment:** The next can be study of external environment pertaining to MFI which can include study of various external factors as following:

- a) **Political:** tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability have any effect on micro finance
- b) **Economical:** include economic growth, interest rates, exchange rates and the inflation rate affect the business of micro finance
- c) **Social:** include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety affect the demand of micro finance.
- d) **Technological:** technological changes affect the micro finance.
- e) **Legal:** Does new legal norms and regulatory framework put a constraint of micro finance business.

**Prospects of Microfinance:**

Besides removing these problems there is a lot which can be done in this field to make this programme more effective. Some future prospects in this field are discussed below

1. **Growth Prospects:** Microfinance programme has a wider prospect to expand both the outreach and depth of services provided. there is an ample scope to cover these unreached poor people.

2. **Reducing district Disparity:** As discussed in the problems, the spread of microfinance programme is unequal among district of Rajasthan and there is limited spread in the poorer district. So, there is ample scope to spread microfinance programme in the unreached areas.

3. **Schemes to Support MFIs :** MFIs are meant to play an important role in reaching the poor people who are not served by the formal financial institutions. But most of these institutions are restricted by 97 RBI to collect savings from their members and raise public funds. As these institutions do not publish their annual financial reports, it is difficult to determine their financial health. Therefore, the formal financial institutions also hesitate to provide loans to these institutions. As a result, they face paucity of funds which becomes a hurdle in expanding the microfinance programme. To tackle this problem, some schemes may be adopted to provide support and help for the capacity building of MFIs for the expansion of microfinance programme.

4. **Regulation of MFIs:** Currently, various entities such as co-operative societies, mutual benefit societies or mutually aided societies etc. are engaged in the activity of microfinance. They are guided by different laws under which they are registered. Lack of a single regulatory authority restricts the orderly growth of microfinance sector. Keeping in view all the regulatory problems, the Government of India has proposed legislation and formulated a bill for the development and regulation of microfinance sector.

5. **Insurance Services:** In Rajasthan, the penetration of insurance services among rural poor people is very limited and there is a great potential for the same. Moreover, poor are very much vulnerable to the natural uncertainties and insurance is necessary for them. The network used for microfinance programme can be used to tap the potential of insurance in rural markets. Non-Government Organizations, Microfinance Institutions and Self-Help Groups can be used as micro-insurance agents. However, some of the NGOs are providing accident; life and crop insurances in India but such type of services need to be expanded.

6. **Flexibility in the Programme:** in order to expand the outreach of the programme to the poorer people, there is a need to introduce more flexible system such as the one adopted in Bangladesh, where even the beggars are provided with micro-loans by the Grameen Bank.
7. **Technical Innovations:** In order to improve the quality of microfinance services some technical innovations may be introduced. A number of electronic devices are being used in different countries to expand the outreach and to improve the microfinance functioning. Some of these devices are mobile phones, ATMs, processor cards, computers etc. Mobile phone provides the rural poor borrowers with the communication facility. Though some of such projects have been started by NABARD on pilot basis, but there is enough scope to use such innovative techniques in microfinance sector in India.

## CONCLUSION

There were numbers of traditional and informal ways of forwarding credit before the emergence of the micro finance. All of them provided very little attention to the downtrodden society. Micro finance programme has been recognized as one of the most successful and rapidly growing programme in Rajasthan. . Microfinance services are provided mainly by two different models viz., SHG-bank linkage model and MFI-bank model. Out of these two models, SHG-bank linkage model has emerged as the more dominant and widely accepted model due to its adoption by formal financial institutions namely, Commercial Banks, Regional Rural Banks and Cooperative Banks. The SBLP has made an adventure in the economy by transforming the formal banking services to rural poor and needy people particularly women group. Due to wide spread rural bank branch network, the SHG-Bank Linkage Programme is very suitable in the Rajasthan context. We can say that micro finance 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. In Rajasthan saving amount of SHGs, credit disbursed by bank to SHGs and NPAs of bank amount increase yearly .which show that micro finance encourages access of SHGs to banks both as means of saving and provider of loan services in Rajasthan. Started as a social experiment, microfinance has now become a profit-oriented sector. There is a need to focus

on regulatory issues to achieve the goal of financial inclusion and to create participation-friendly environment for the clients.

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