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**AN OVERVIEW TO TRENDS IN SAVINGS AND CREDIT EXTENSION IN THE**

**PROGRESS OF MICROFINANCE IN INDIA****DR. JMJ. VINODINI\***

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**ABSTRACT**

*India, one of the BRIC (Brazil, Russia, India and China) nations with more than 1.2 billion population is seen by many developed countries as an emerging economy. India's economic growth has failed to make a significant improvement in its poverty figures Government of India with its concern started various poverty alleviation programs but they have failed to deliver the objectives to the level which is desired. The reasons may be many such as failure to reach the target group, loopholes in the system, developing a robust mechanism to name a few. Many countries including India experimented with subsidized credit which only led to increase in the NPAs. The microfinance has come forward to fill up the gap. But the outreach is too small as compared to the requirement and potential. However there is some progress in this regard after active role played by NABARD and formation of SHGs groups. A number of NGOs and MFIs have also delved into the business. Some of them have also started in a big way and have started making profit by issuing IPOs (Initial public offers). But certain development in recent years has brought a fresh focus on the problem of regulation in field of microfinance. The paper demarcates three distinct facets of microfinance, first growth of microfinance in India; secondly it discusses the role played by NABARD and other National Banks in growth of microfinance. Third, attempt has been made to estimate the future trends by understanding the past behavior in micro financing through SHG-Bank Linkage Model and MFI-Bank linkage model. The paper discusses the factors and theoretical position associated with evolution of microfinance and its role in global scenario.*

**CONCEPT OF MICROFINANCE**

In India, the history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank concentrated on raising micro deposits in the form of daily/weekly basis and sanctioned micro loans to its clients for shorter period of time. But microfinance came to limelight only when Dr. Yunus gave it a mass movement in Grameen Bank experiment. Microfinance can be called a novel approach to provide saving and investment facility to the poor around world. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, gradually build their asset base, develop their business, enhance their income earning capacity, and enjoy an improved quality of life. In India, microfinance mainly operates through Self Help Group (SHGs), Non-Government Organizations (NGOs), and Credit Agencies. It provides poor people with the means to find their own way out of poverty. It put the power squarely in their hands, giving them a larger stake in their own success than one time donation of food, goods, or cash. Today microfinance has been widely spread all over the world as an effective tool to poverty eradication. It is found that microfinance has reached about 80 million households and about, 20000 microfinance Institutions are operating in developing countries of Asia, Africa, Europe and Latin America (Pillai & Nadarajan, 2010).



### *Meaning and Definition of Micro-finance*

The term “Microfinance” concerns to the lending of extremely small amounts of capital to poor entrepreneurs in order to create a mechanism to alleviate poverty by providing the poor and deprived with resources that are available to the wealthy, although at a smaller scale. The effectiveness of micro finance is better realized by destitute sections when their capacities are also enhanced along with access to financial services.

A good definition of microfinance as provided by Robinson (2001) is, ‘Microfinance refers to small-scale financial services for both credits and deposits-that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas’.

### REVIEW OF LITERATURE

**Annas (1993)** explains that two actual norms for human life exist globally: in no society is it indifferent to the shape of one’s life and what one can make of it, whether one is a man or a woman. One’s sex may close some options completely, or make them less available but it always makes a difference to what ones options is over one’s life as a whole. According to her, in a traditional society norms for the lives of men and women are enforced strongly and there exists actual division of activities and ways of living.

**Beteille (1999)**, India is the contradiction case of egalitarian political order and is a hierarchical social structure. Thus economic and social inequalities rooted in traditions and cultural norms need to be changed as political measures alone cannot bring empowerment. He points out that empowerment is invoked in the context of economic weakness and insecurity, particularly of marginalized, unorganized and other disadvantaged groups.

**MYRADA – Mysore Resettlement and Development Agency (2002)**, a study conducted by NABARD in the mid-eighties revealed that financial services required by poor households are: safe-keeping of small surpluses in the form of thrift; access to consumption loans to meet emergency needs and financial services and products that did not require collateral.

**Basu (2006)** examined that micro-finance is a good way to benefit the poor and that it was not the classic trickle down approach but a trickle up one. This strategy is redistributive, entrepreneurial and empowering. The concept of trickle up economics directly benefiting the poor has been found to be working better for economies like India’s.

**Bhatt & Jhaveri (2008)** examined that micro-finance has been hailed as a new age solution to alleviate poverty and bring economic prosperity to the rural economy. MFIs contribute to improving lives of the poor people but they have a long way to go.

## OBJECTIVES OF THE STUDY

1. To study and analyze the growth of microfinance in India over the years through various delivery models.
2. To estimate the future trends of savings and credit extension by understanding the past behavior of micro finance delivery models.

In India, initially many NGO microfinance institutions (MFIs) were funded by donor support in the form of revolving funds and operating grants. But it is only after intervention of National Bank for Agriculture and Rural Development (NABARD) in 1992 in the field of microcredit, the movement of microfinance got a boost in India. The share of formal financial sector in total rural credit was 56.6 per cent compared to informal finance at 39.6 per cent and unspecified source at 3.8 per cent (GoI, 1998). In India, around 70 per cent of landless and marginal farmers did not have a bank account and 87 per cent of poor had no access to credit from a formal source (WB-NCAER, 2003). Now, the microfinance service providers include apex institutions like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and Rashtriya Mahila Kosh (RMK). At the lower level we have commercial Banks, Regional Rural Banks and cooperatives to provide microfinance services. The private institutions that undertake microfinance services as their main activity are generally referred to as Micro finance Institutions (MFIs) in Indian context. There are also some NGOs which lend credit to Self Help Group (SHGs). The NGOs that support the SHGs include MYRADA in Bangalore, Self Help Women's Association (SEWA) in Ahmadabad, PRADAN in Tamilnadu and Bihar, ADITHI in Patna, SPARC in Mumbai. The NGOs that are directly providing credit to the borrowers include SHARE in Hyderabad, ASA in Trichy, RDO LOYALAM Bank in Manipur (Tiwari & Fahd, n.d.).

## GROWTH ANALYSIS OF MICROFINANCE DELIVERY MODELS IN INDIA

In India, microfinance is provided through the SHG-Bank Linkage Model (SHGBLM) and Microfinance Institution (MFI) Model.

1. **SHG-Bank Linkage Model:** In this model, the informal self-help groups (SHGs) are credit linked with the formal financial institutions. The SHG-BLM has emerged as a dominant model in terms of number of borrowers and loans outstanding. The programme uses SHGs as an intermediation between the banks and the rural poor to help in reducing transaction costs for both the banks and the rural clients.
2. **MFI Model:** MFI model is found worldwide whereas the SHG-BLM model is an Indian model. In MFI model MFIs borrow large amount of funds from the apex financial institutions, donors and banks for on-lending to the individuals or groups. These MFIs provide financial services to the individuals or to the groups like SHGs, JLGs and Grameen groups.

In the study the growth of microfinance delivery models has been analyzed through measurement of trend as it helps in determine the direction which it takes i.e. growing or declining. By studying the trend the growth factor has been ascertained which helps in predicting the future behavior of both the above models. After determining the trend values the rate of growth is ascertained and tentative estimates concerning amount of savings and credit extension under both the models are made accordingly. To study the growth trend the method

of Least Square has been used to find out trend values. Here it has been used to fit a straight line trend by assuming the constant growth over the years which is represented by the equation:

$$Y_c = a + Bx$$

Where  $Y_c$  is used to designate the trend values to distinguish them from the actual values (Y) relating to amount of savings and amount of credit extended under microfinance. The X variable represents the time and the values of constants 'a' and 'b' are determined through the equations:

$$\sum Y = Na + b \sum X \quad \sum XY = a \sum X + b \sum X^2$$

Where 'N' represents the number of years for which data related to study has been observed.

### SHG BANK LINKAGE MODEL

#### 1. Growth analysis on amount of savings of Self Help Groups with the Banks under Microfinance

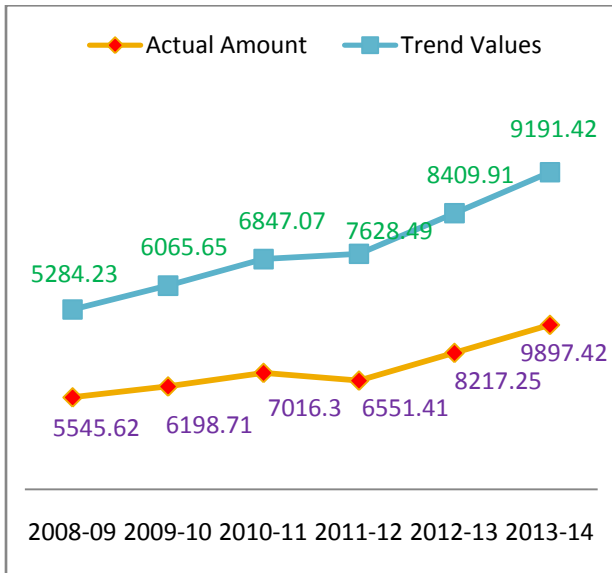
**Table 1**  
**Savings of SHGs with banks from 2008-09 to 2013-14**

(Rs. in Crore)				
Year	Actual Amount	% growth	Trend Values	% growth
2008-09	5545.62	--	5284.23	--
2009-10	6198.71	11.78	6065.65	14.79
2010-11	7016.3	13.19	6847.07	12.88
2011-12	6551.41	-6.63	7628.49	11.41
2012-13	8217.25	25.43	8409.91	10.24
2013-14	9897.42	20.45	9191.42	9.29

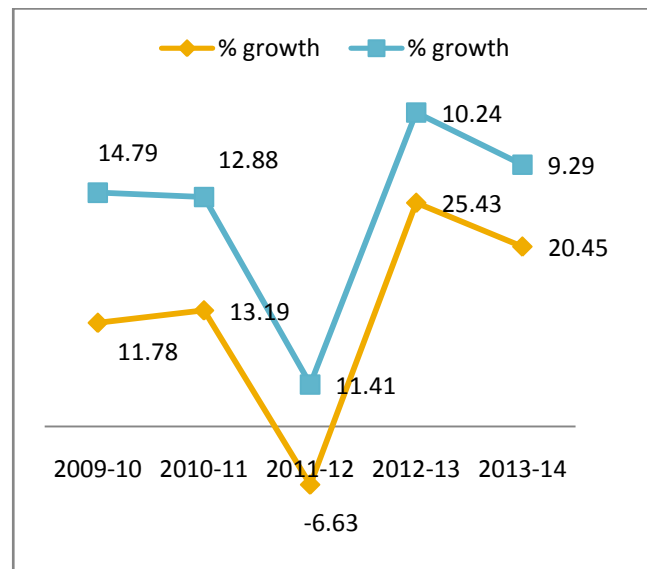
Source: NABARD annual reports

Table-1 contains that in the year 2008-09 the amount of savings of Self Help Groups with the banks was 5545.62 crore which incremented to 6198.71 crore in 2009-10 and 7016.30 crore in 2010-11 showing the growth of 13.2 per cent. But in 2011-12 it shows a declining trend with a negative growth rate of -6.7 per cent due to decrease in amount of savings as compared to previous year i.e. 6551.41 crore respectively. Again in the year 2012-13 growth rate of 25.40 per cent has been analyzed as the savings has been incremented to 8217.25 crore and then amounts to 9897.42 crore in the next year 2013-14 but the growth is less as compared to previous year i.e. 20.45 per cent.

**Figure-1**  
Savings of SHGs with banks



**Figure-2**  
Growth trend in Savings of SHGs with Banks



**2. Growth analysis on amount of credit extension to Self-Help Groups by the Banks under Microfinance**

Table-2 contains that a growth rate of 17.9 per cent has been observed in the year 2009-10 due to increase in the amount of credit extension from the previous year i.e. 2008-09 (12254 crore to 14453.3 crore). The trend has been represented in the figure-3.

**Table-2**  
Credit Extension to SHGs by the Banks from 2008-109 to 2013-14

(Rs. in Crore)				
Year	Actual Amount	% growth	Trend Values	% growth
2008-09	12254	--	11408.3	--
2009-10	14453.3	17.95	13671.2	19.84
2010-11	14548	0.66	15934.1	16.55
2011-12	16535	13.66	18196.9	14.20
2012-13	20585.3	24.50	20459.8	12.44
2013-14	24017.4	16.67	22722.7	11.06

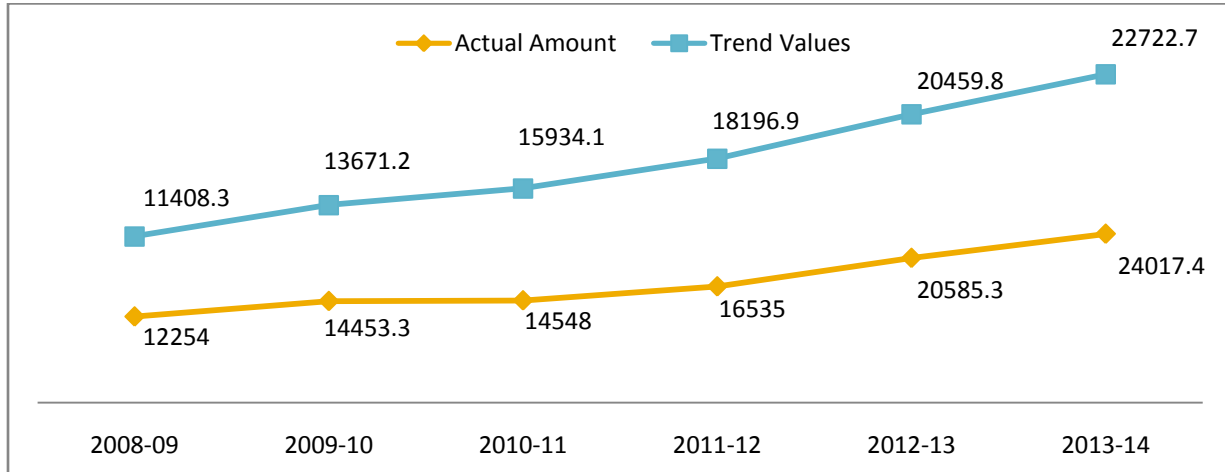
Source: NABARD annual reports

There was a minute increase in the amount of credit extension in 2010-11 i.e. 14548 crore showing an



increment of just 0.01 per cent. Again in the year 2011-12 the amount extends to 16535 crore and up to 20585.30 crore in 2012-13 showing an increasing trend in the growth rate i.e. 13.7 per cent to 24.5 per cent respectively. The amount increased to 24017.36 crore in the year 2013-14 showing a growth of 16.67 per cent.

**Figure-3**  
**Growth trend in Credit Extension to SHGs by Banks**



**3. Estimated amount of savings and credit extension under SHG-Bank Linkage Model from 2014-15 to 2020-21:**

By understanding the past behavior of growth trend tentative estimates regarding amount of savings and credit extension under the model are made which are depicted in the following table-3. We can see from the following figures that the amount of savings as well as credit extension will be increased in the coming years but the growth rate shows a declining trend in both the cases.

**Table-3**  
**Estimated Growth in Amount of Savings and Credit Extension from 2014-15 to 2020-21**  
(Rs. in Crore)

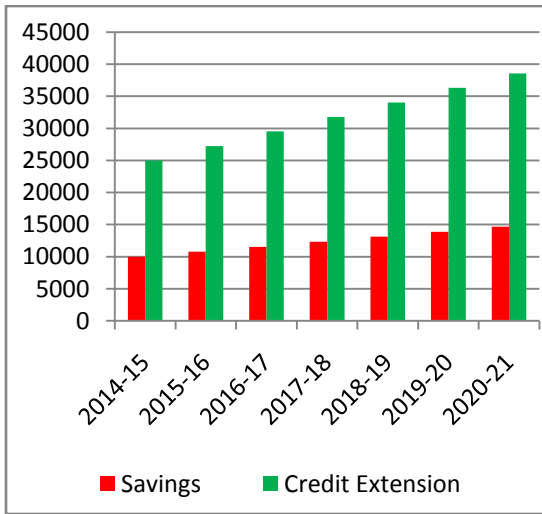
Year	Savings	% growth	Credit Extension	% growth
2014-15	9972.75	0.76	24985.5	4.03
2015-16	10754.17	7.83	27248.36	9.05
2016-17	11535.59	7.26	29511.22	8.3
2017-18	12317.01	6.77	31774.08	7.67
2018-19	13098.43	6.34	34036.94	7.12
2019-20	13879.85	5.96	36299.8	6.64
2020-21	14661.27	5.62	38562.66	6.23

Source: Compiled from own calculations



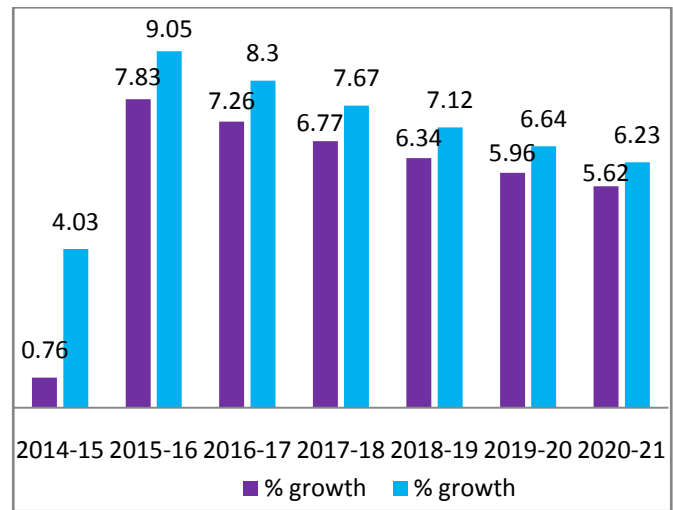
**Figure-4**

**Estimated Growth of Savings & Credit Extension**



**Figure-5**

**Estimated Growth under SHG- Bank Linkage model**



**MFI-BANK LINKAGE MODEL**

The data related to credit extension under this model has been analyzed and the percentage growth has been depicted in the table below. Trend values are also determined as in SHG-Bank Linkage model to understand its growth pattern.

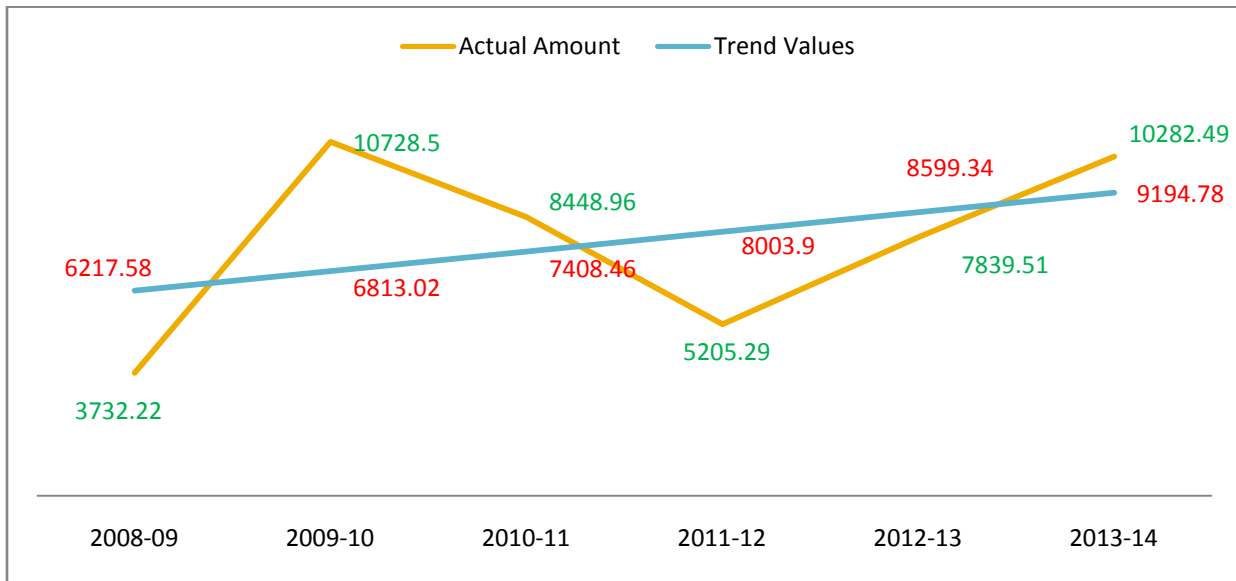
**Table-4**  
**Growth Trend in Credit extension to MFIs by Banks**

Year	Actual Amount	% growth	Trend Values	% growth
2008-09	3732.22	--	6217.58	--
2009-10	10728.5	187.46	6813.02	9.58
2010-11	8448.96	-21.25	7408.46	8.74
2011-12	5205.29	-38.39	8003.9	8.04
2012-13	7839.51	50.61	8599.34	7.44
2013-14	10282.49	31.16	9194.78	6.92

Source: NABARD annual reports

The fact that Commercial Banks are losing their confidence in lending to MFIs is evident from the fact that the fresh lending to MFIs by banks during the year 2011-12 declined by over 38 per cent as compared to last year 2010-11. After 3 years of the microfinance crisis, the MFIs seem to be on the path of regaining the confidence of the clients as well as with the lending institutions from 2012-13 onwards. Fresh loans issued to MFIs by Banks showed a 50 per cent increase over the previous year low. But again 31.16 per cent of growth rate has been achieved in lending in 2013-14.

**Figure-6**  
**Growth Trend In Credit Extension To MFIs By Banks**



**Estimated Credit Extension under MFI-Bank Linkage Model**

The tentative figures of credit extension and percentage growth under this model are presented in the following table 5.

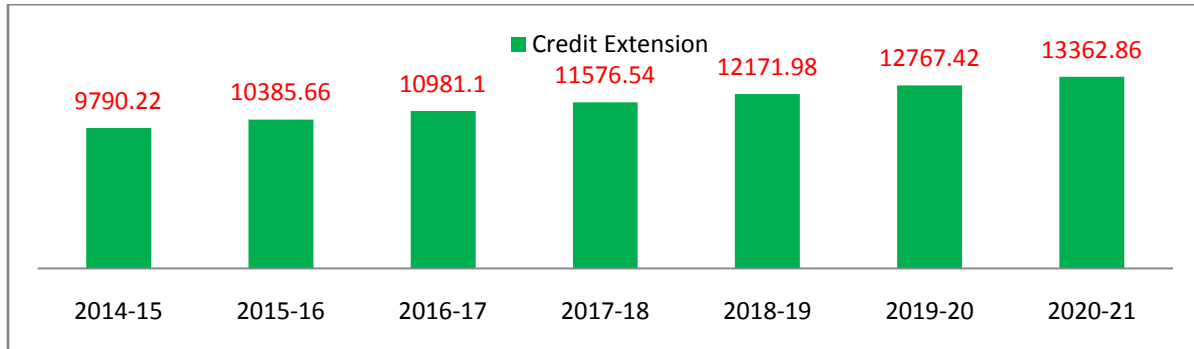
**Table-5**

**Estimated Credit Extension under MFI-Bank Linkage Model (2014-15 to 2020-21)**  
(Rs. in Crore)

Year	Credit Extension	% growth	Year	Credit Extension	% growth
2014-15	9790.22	6.47	2018-19	12172	5.14
2015-16	10385.7	6.08	2019-20	12767.4	4.89
2016-17	10981.1	5.73	2020-21	13362.9	4.66
2017-18	11576.5	5.42			

Source: Compiled from own calculations

**Figure-7**  
**Estimated Credit Extension Under MFI-bank Linkage Model**



### ISSUE OF CONCERN UNDER MICROFINANCE

From the data analysis and estimated figures we can observe that micro financing under both the models will follow a declining growth rate in the coming years which is a main issue of concern. The SHG-Bank linkage programme has grown rapidly during the last two decades and over 103 million poor households have now access to regular savings which shows the efforts made by the programme in the progress of micro finance sector. But at the same time one should notice the rate at which the programme is growing so that efforts are made to improve the rate of growth which ultimately leads to growth of microfinance sector. The same pattern of declining growth rate has been observed in MFI-Bank Linkage model. The government's initiatives to streamline credit operations and delivery system through micro-finance movement and strengthening and expansion of credit institutions (SHG's) can definitely help in the revival of rural economy and empowerment of the rural poor. Micro-credit intervention programme should be well-recognized world over as an effective tool for poverty alleviation, improving socio-economic conditions of rural poor and their sustainable development. As per *Ghate ET AL. (2008)*, microfinance programme has been able to cover just 16.5 million of the total 75 million poor households. So, there is an ample scope to cover these unreached poor people in order to achieve financial inclusion objective. Also, the average loans provided to the SHG members under both the SHG-BLM and MFI models range between Rs. 3,500 to 5,000 which can meet the liquidity requirements only and are not sufficient to help a member to start productive activities. So far the government has been succeeded in providing only Rs. 2,000 crore annually against a demand of over Rs. 50,000 crore by the 75 million poor households (*Ghate ET AL., 2008*). Hence, there is a vast unmet demand in the rural and urban sectors which is again a serious issue of concern, and there is ample scope for the growth of different kinds of MFIs and microfinance service providers.

## CONCLUSION

Micro-finance is one of the ways of building the capacities of the poor and graduating them to sustainable self-employment activities by providing them financial services like credit, savings and insurance. This study tries to appraise the role of microfinance in upgrading the lives of rural and deprived masses in a sustainable way by depicting the trends under micro-financing. SHG movement has the potential to satisfy the financial service needs of India's unbanked people in scalable and sustainable manner which in turn leads to social and economic prosperity of deprived sections. The progress of both the models discussed in study indicates the role of micro finance sector in financial inclusion process of country. Microfinance programme has witnessed phenomenal growth in India in the past years and has a wider prospect to expand both the outreach and depth of services provided.

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