Sustainable Development And Fostering Inclusive Growth Through Microfinance In The Indian Economy

*Anuradha. PS
**Dr. G. Ganesan

INTRODUCTION

The Indian story of growth, especially in the post liberalization era, has been overshadowed by multiple human development issues. Exclusion has been identified as the primary reason for unequal distribution of the benefits of growth. The emergence of inclusive growth in the policy paradigm is the outcome. The purpose of this paper is to focus on social & economic issues and the use of microfinance as a strategy for inclusive growth & sustainable development. India has vast diversity in the areas of language, religion, culture and social norms. Since the inception of India as an independent country, population explosion has been projected as a prime concern of the state. Soon after independence, Indian leaders were thinking of strategies of economic development the country should follow. The top priority of the Indian Government was to have rapid growth in a stagnant economy. India decided to follow a socialistic pattern of society, which meant growth with social justice, self-reliance and poverty alleviation. Stress was laid on rapid industrialization and for shift from its historic agrarian-based economy to a mixed economy with sectoral balance. The fall-out was creation of heavy industries and a larger role of the public sector. In the process, the Government neglected rural economy and rural population, which is almost 2/3rd of the total population. In 1991,the Government of India introduced economic reforms. Globalization, industrialization, liberalization and privatization led to tremendous economic growth. This growth carried the characteristic feature of urban centric saturation. The prevalent disparities in the form of social, spatial and regional disparities were aggravated due to this unplanned approach. An attempt has been made in this paper to look at sustainable development & inclusive growth as the most pragmatic approach for addressing the multiple development disparities. Microfinance is one of the practical development strategies and approaches that has been discovered and implemented for sustainable development and has been used as a means to foster inclusive growth in the Indian economy. In the development paradigm, microfinance has evolved as a need-based policy and programme to cater to the so far neglected target groups (women, poor, rural, deprived, etc.). Its evolution is based on the concern of all developing countries for empowerment of the poor and for the alleviation of poverty. Development organizations and policy makers have included access to credit for poor people as a major aspect of many poverty alleviation programmes. Microfinance programmes have, in the recent past, become one of the more promising ways to use scarce development funds to achieve the objectives of poverty alleviation. Furthermore, certain microfinance programmes have gained prominence in the development field and beyond. The basic idea of microfinance is simple : If poor people are provided access to financial services, including credit, they may very well be able to start or expand a micro-enterprise that will allow them to break out of poverty. There are many features to this seemingly simple proposition, which are quite attractive to the potential target group members, government policy makers, and development practitioners. For the target group members, the most obvious benefit is that micro-finance programmes may actually succeed in enabling them to increase their income levels. Furthermore, the poor are able to access financial services which previously were exclusively available to the upper and middle income population. Finally, the access to credit and the opportunity to begin or to expand a micro-enterprise may be empowering to the poor, especially in comparison to other development initiatives, which often treat these specific target group members as recipients. For development practitioners, the success of micro-finance programmes is encouraging. Too often in the past, costly large-scale development initiatives have failed to achieve any sustainable benefits, especially after funds have dried up. With the new emphasis now given to micro enterprises,

**Associate Professor & Coordinator*, Department Of Commerce, Christ University, Bangalore.
Email: anuradha.ps@christuniversity.in
***Dean & HOD*, Department of Commerce, Bharathiar University, Coimbatore,Tamil Nadu.

self employment activities and household enterprises, now all considered as essential factors for achieving social and economic development in developed and developing countries, microfinance has become very fashionable and is attracting increased attention. Thus, microfinance has become one of the most effective interventions for economic empowerment of the poor.

THE POTENTIAL OF THE UNREACHED

"*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- United Nations Secretary-General).

In India, economic reforms with a human face have been accepted as the guiding principle of sustainable development. Keeping the poor at center stage, the policies need to be reoriented so as to develop and optimize the potential of such a large segment of the population and enable them to contribute in the growth process significantly in terms of output, income, employment and consumption.

MICROFINANCE- INSTRUMENT FOR POVERTY ALLEVIATION

Microfinance is expected to play a significant role in poverty alleviation and development. Microfinance is an attempt to break this deadlock, by providing the poor with the financial means to engage in new forms of economic activity, and so improve their lives. Equitable gains from development on a sustainable basis and ensuring viability of financial services are key elements in a strategy of poverty reduction by means of credit support to the poor. As microfinance is seen to be an approach addressing these concerns effectively, it has assumed significance in all the developing countries as an effective tool in fighting poverty. The Microfinance scene in India is dominated by Self Help Groups (SHGs) - Banks linkage program for over a decade now. As the formal banking system already has a vast branch network in rural areas, it was perhaps wise to find ways and means to improve the access of rural poor to the existing banking network. This was tried by routing financial services through Self-Help Groups, formed as grass roots level institutions developed for social/economic and financial intermediation for focusing on the poor.A Self-Help Group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment thereof. In fact, peer pressure has been recognized as an effective substitute for collaterals. Drawing lessons from experiments carried out in various parts of the world, particularly Asia - Pacific, an attempt was made to build financial relationships between informal groups of people and formal agencies like banks for catering to the financial service requirements of the poor, especially women. Over the years, SHG-Bank linkage model has emerged in India as a core strategy for the banking system to extend their outreach to the poorest among poor. Though SHGs existed even before the linkage program, the banks could not recognize their potential as business clients and both operated independently, without knowing the strength of the other. Intervening to forge a linkage, NABARD was instrumental in the emergence of a very strong microfinance movement in the country. The SHG - Banks linkage program was conceived with the objectives of developing supplementary credit delivery services for the unreached poor, building mutual trust & confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor. The linkage program combines the flexibility, sensitivity and responsiveness of the informal credit system with the technical, administrative capabilities and financial resources of the formal financial sector. It is a design relying heavily on collective strength of the poor, closeness of NGOs to people and large financial resources of banks. Further, the SHGs have also undertaken effective social mobilization functions contributing to an overall empowerment process. The banks have externalized what would otherwise have been high transaction costs for mobilizing savings of the poor, appraisal and sanction of loans and improved loan recovery through the financial intermediate role played by SHGs.

INCLUSIVE GROWTH

'Inclusive Growth' is a process, in which, economic growth, measured by a sustained expansion in GDP, contributes to an enlargement of the scale and scope of all the following four dimensions:

❁**Opportunity:** Is the economy generating more and varied ways for people to earn a living and increase their incomes over time?

❁**Capability:** Is the economy providing the means for people to create or enhance their capabilities in order to exploit available opportunities?

❁**Access:** Is the economy providing the means to bring opportunities and capabilities together?

❁ **Security:** Is the economy providing the means for people to protect themselves against a temporary or permanent loss of livelihood?

A large majority of the Asian population still lives under $2 a day and in extremely poor conditions. Sustenance of this inequality could trigger tensions among different groups and may result in armed conflicts. This section of the society urgently needs to be brought into the economic main stream to achieve inclusive growth. The role of the financial sector in achieving this inclusive growth comprises of providing financial services to this segment and this is where microfinance plays a crucial part. To address such risks, India's development agenda will need to be expanded to include not only the eradication of extreme poverty, but an inclusive growth strategy to address the legitimate concerns of this large segment of the population. The ultimate outcomes of inclusive growth are sustainable and equitable growth, social inclusion, empowerment and security. Although the banking sector has made significant developments in many areas of their performance, there still exist large portions of the population which are yet to be brought under the umbrella of banking services. Financial inclusion efforts are essential to bring those portions of the population into the mainstream. This would enable banks to expand their market share, in the process of tapping the Bottom of Pyramid.

SHG'S CONTRIBUTION TO INCLUSIVE GROWTH

The women's self help movement emerged as an important strategy for achieving financial inclusion, contributing to inclusive growth, and generating social capital in order to address larger issues like poverty eradication and women empowerment. SHGs are proving to be the most effective instruments for financial inclusion. The experiments started some thirty years ago with NGOs piloting SHG promotion, which has evolved into a national movement--with the proactive role of the state governments--gaining recognition from all the major stakeholders. SHGs are also helping to optimize the utilization of the India's vast formal financial institutional structure of about 160,000 institutions in the rural areas through linkages with banks and acting as business correspondents for the banks. According to the NABARD, at the end of March 2007, 2.92 million SHGs cumulatively received bank loans of ₹ 180,410 million (US$4.5 million). In total, 40.95 million poor households have been provided with credit from formal financial institutions. And, given that the average size of the Indian family is five, this indicates that over 200 million people have been provided credit by the banking sector through SHGs, though not all of them would be active borrowers. The majority of whom were, hitherto, out of the purview of mainstream financial institutions. The south Indian state of Andhra Pradesh is on the way to achieve near-universal financial inclusion because of SHGs. Other southern states are moving quickly in that direction as well; and all other states have realized the potential of SHGs in financial inclusion and are adopting the model. Over 90% of the bank-linked groups are women groups and about four-fifth are situated in rural areas, a traditionally under-served area. The SHG model is a homegrown model that emerged in the Nineteen Eighties and Nineties. There is an overwhelming support for the SHG movement from the Government of India, India's Central Bank, NABARD, the banking sector, state governments, and NGOs. The important growth of the SHGs, in numbers, is mainly attributable to the proactive role of the state governments. For example, Government of Andhra Pradesh has promoted more than 700,000 SHGs. The leadership role played by NABARD, all the banks and NGOs contributed to the exponential growth. Over the past 5 years, the Indian Government Budget presentation has emphasized on SHG bank linkage each year. SHGs have also proven to be a profitable business for rural and semi-urban bank branches - banks consider lending to SHGs as a business opportunity. With over 95% of recovery and aggregated transactions (one SHG means 10 to 20 individual members). Unlike the majority of agriculture and rural clients, SHGs operate their saving accounts on a regular basis, and they maintain some credit balances in their accounts. Many banks and branches, especially in Andhra Pradesh, have begun substantial lending to SHGs. According to a recent study by APMAS, in the Nizamabad district, SHG members constitute well over one-third of the total customers, and they account for about one-quarter of the total business in rural branches. In some branches, SHG lending has reached three-quarters of total lending.

THE VALUE/BENEFITS SHGs PROVIDE TO CLIENTS

❁Providing a platform for the poor women to discuss and resolve their problems;

❁Helping members manage cash flow deficits (maintaining food intake and overcoming emergencies), leading to improvement in quality and productivity of their only capital/humanresource capital/ resource;

❁Helping members avoid money lenders, especially to meet food and health emergencies;

❁Helping members invest in asset creation, diversify their occupations, and improve their risk-bearing capacities;

❁Promoting leadership qualities among their members;

❁Fostering women, even from conservative communities and regions, to interact with outsiders, particularly officials, including men; and

❁Establishing the linkage between banks and marginalized citizens, especially the women.

SHG- BANK LINKAGE PROGRAMME APPROACH (SBLP)

The most common linkage model in India is where the banks deal directly with individual SHGs. In case of most of these SHGs, the SHPI had provided the initial training, guidance to rural poor in organizing themselves into thrift and credit groups. The SHPI also keeps a watch and ensures satisfactory functioning of the SHGs even after the linkage. While linkage of the banks is direct with the SHGs, the SHPI has an important role in pre- as well as post-linkage stages. A slight variant to Model 1 is where Banks have provided financial support to SHGs which had grown almost spontaneously without any intervention of any SHPI .The cases of such linkages are of course not very common .In the third model, the SHPI have taken the role of a financial intermediary between the banks and a number of SHGs. Again, the SHPIs take up such responsibilities only in respect of the groups promoted/nurtured by them. The SHPI accepts the contractual responsibility for repayment of the loan to the bank. In this respect, it is indirect .The SBLP has made considerable progress since its inception in the early 1990s, both in terms of the number of SHGs credit linked with banks as also the bank loans disbursed by SHGs. The cumulative number of SHGs credit linked with banks increased sharply from 33,000 in 1992-99 to 264,000 in 2000-01 and further to 2,239,000 in 2005-06. During the above period, the cumulative bank loans disbursed to SHGs also witnessed a sharp increase from ₹ 57 crore in 1992-99 to ₹ 481 crore in 2000-01 and further to ₹ 11,398 crore in 2005-06. The provisional data available so far indicates that during the year 2007-08, 552,992 new SHGs were provided with bank loan and 186,883 existing SHGs were provided with repeat loans. Total bank loans disbursed during the year were at ₹ 4, 228 crore, of which, repeat bank loans to existing SHGs were at ₹ 1, 686 crore. In terms of relative shares of different agencies, commercial banks continued to account for the largest share, both in terms of number of SHGs credit linked and bank loans disbursed, followed by regional rural banks and co-operative banks. Among the commercial banks, public sector banks accounted for the largest share of loans disbursed to the SHG sector (88.8 per cent) in 2006-07. Out of the total loans disbursed by the commercial banks, 86.9 per cent of the loans were disbursed exclusively to women SHGs. Under the SBLP, as on March 31, 2007, 2.9 million SHGs had outstanding bank loans of ₹ 12,366 crore .Of the three models under the SBLP, the Model II, viz., SHGs promoted by NGOs/ Government agencies and financed by banks have emerged as the most dominant model in the case of India. The region-wise pattern of SHGs linked to banks showed greater concentration in the southern region, although the spatial disparity has declined in the last few years with some increase in the share of other regions, particularly the eastern region. In order to scale up efforts and reduce the regional imbalances in outreach, 13 non-south Indian States (Assam, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chattisgarh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal) with high incidence of rural poverty and where the microfinance movement had not taken roots were identified by NABARD. Special efforts by NABARD resulted in an increase in the number of SHGs credit linked in these states from 100 thousand as on March 31, 2002 to 1.4 million as on March 31, 2007. Thus, the spread of the programme in the 13 States led to a significant decline in the share of the southern states in SHGs linked to banks. As on March 31, 2007, the number of SHGs maintaining savings bank accounts with the banking sector was 4.2 million with outstanding savings of ₹ 3,513 crore, thereby covering more than 58 million poor households under the programme. Commercial banks had the maximum share of the SHG's savings (53.9 per cent), followed by RRBs (32.9 per cent) and co-operative banks (13.2 per cent) .Among the commercial banks, the public sector banks accounted for the largest share of savings (95.9 per cent), while private sector banks accounted for marginal share (4.1 per cent). It is noteworthy that around 87.3 per cent of the savings were by exclusive women SHGs. About 37 per cent of banks reported recovery of above 95 per cent under the programme, 36 per cent banks reported recovery in the range of 80-94 per cent and another 20 per cent banks reported recovery in the range of 50-79 per cent. Some differences were observed in recovery rates of commercial banks, co-operative banks and regional rural banks. While the recovery rate of public sector banks varied between 52 per cent and 99 per cent, the same of private sector banks varied between 60 per cent and 100 per cent. Out of the 26 private sector banks, the recovery rate of four banks was 100 per cent. Many groups promoted under various Government sponsored programmes also constituted a part of the SBLP. As on March 31, 2007, the number of SHGs having outstanding bank loans were at 700 thousand constituting 23.7 per cent of the total SHGs under the SBLP. The loan amount outstanding under these SGSY loans were ₹ 3,273 crore, which constituted 26.5 per cent of the total amount outstanding under the SBLP. The emerging role of MFIs as institutions other than banks engaged in providing financial services to the poor is being recognized and the banking sector has been extending loans to MFIs for on-lending to SHGs. During the year 2006-07, bank loans amounting to ₹ 1,152 crore were disbursed to 334 MFIs, taking the total loans outstanding to ₹ 1,584 crore to 550 MFIs as on March 31, 2007.The Reserve Bank carried out a survey of MFIs in 2007, which revealed that most of the MFIs have a good recovery rate. Commercial banks remained the most important source of funds for almost all the MFIs. Even though some complaints regarding high interest rates and forcible loan recovery were registered in some parts of the country, most of the borrowers reported that it was easy or very easy to get a loan from MFIs.

CHALLENGES AHEAD

Ensuring group cohesion and group equity and covering the costs of group promotion is crucial for SHGs' sustainability in the long term. Today, many stakeholders are promoting SHGs--NGOs, governments, banks, etc. Ensuring that the quality of the program is maintained as the program grows further will be vital. The use of tools, such as ratings, by SHG- promoting institutions can help ensure better quality control. SHG- promoting institutions need to build capacity within groups, including record keeping and accounting. There is also the need to develop adequate capacity amongst newer SHG- promoting institutions. Further developing the capacity of SHG federations is needed so that these federations can play an increasing role in facilitating social and financial intermediation. SHGs are concentrated in the South; there is a need for more balanced growth of SHGs across the rest of the country. Greater effort in collecting, collating, and analyzing quality data on SHG expansion, membership, and asset quality is required.

CONCLUSION

Microfinance has come of age in India. Although it is not a panacea for the poor, it has now developed into an important delivery mechanism for reaching the poor and achieving financial inclusion. Studies have brought out the positive impact of microfinance on participating clients. As such, its role in enhancing human capital in the long-term would be considerable. It has particularly helped poor & women in particular to become owners of assets, have an increased say in decision making and take up leadership positions. Microfinance is a powerful tool for sustainable development & helps in attaining inclusive growth by creating productive employment, reducing gender & geography differences which lead to the expansion of economy, thereby contributing to the growth of the economy.

Inclusive Growth is key for Equitable and Sustainable Future. The ability of individuals to be productively employed depends on the opportunities to make full use of available resources as the economy evolves over time. The role of Government is that of an enabler and private sector participation could catalyst inclusive growth through initiatives like Microfinance. Microfinance has paved the way to create a centre for Inclusive Growth by identifying and replicated the best practices and models that are economically viable and sustainable.

BIBLIOGRAPHY

1)APMAS (2005): A Study on Self Help Group (SHG)-Bank Linkage in Andhra Pradesh, Pp: 76- 91, APMAS, Hyderabad.
2)Commission on Growth and Development (2008) Growth Report: Strategies for Sustained Growth and Inclusive Development, the World Bank.
3)Fernandez, A. (2000): 'Putting Institutions First even in Micro-credit'. Paper Presented at the Workshop on Best Practices in Group Dynamics and Micro-credit, 15-17 February, 2000.

(Contd. On Page 16)

BIBLIOGRAPHY

1)Ashbaugh, H., K. M. Johnstone and T. D. Warfield (1999), "Corporate reporting on the Internet," Accounting Horizons, 13(3): 241- 257.
2)ASSC (1975), "The Corporate Report," Discussion Paper-Accounting Standards Steering Committee: London.
3)Brennan, N. and D. Hourigan (1998), "Corporate reporting on the Internet by Irish companies," Accountancy Ireland, December, 30(6):18, 20- 21.
4)Brennan, N. and S. Kelly (2000), "Use of the Internet by Irish Companies for Investor Relations Purposes," Irish Business and Administrative Research, 21(2):107-135.
5)Budd, R. W., R. K. Thorp and L. Donohew (1967), Content Analysis of Communications (New York: Macmillan).
6)Bury, L. (1999), "On Line and on Time," Accountancy, 28-29.
7)Cerf, A. R. (1961), Corporate Reporting and Investment Decision (Berkeley, CA: University of California Press).
8)Craven, B. M. and C. L. Marston (1999), "Financial reporting on the Internet by leading UK companies," European Accounting Review, 8 (2): 321- 333.
9)Debreceny, R., G. L. Gray, and A. Rahman (2002), "The Determinants of Internet Financial Reporting," Journal of Accounting and Public Policy, 21: 371-394.
10)Deller, D., M. Strubenrath and C. Weber (1999), "A survey on the use of the Internet for investor relations in the USA, the UK and Germany," European Accounting Review, 8(2): 351- 364.
11)Dutta, P and S. Bose (2007), "Corporate Social and Environmental Reporting on Corporate Websites: A Study on Listed Companies of Bangladesh", The Cost & Management, 35(4):31-49.
12)Ettredge, M., V. J. Richardson and S. Scholz (2001), "The Presentation of Financial Information at Corporate Web Sites," International Journal of Accounting Information Systems, 2(3): 149-168.
13)FASB (2000), "Business Reporting Research Project. Electronic distribution of business reporting information," Steering Committee Report Series, available at: http: //www.fasb.org/news/memorandum.pdf.(accessed on 31 July 2007).
14)Geerlings, J., L. Bollen and H. Hassink (2003), "Investor Relations on the Internet: A Survey of the Euronext Zone," European Accounting Review, 12(3): 567-579.
15)Gowthorpe, C. and O. Amat (1999), "External reporting of accounting and financial information via the Internet in Spain", European Accounting Review, 8(2): 365 -371.
16)Gray, G. and R. Debreceny (1997), "Corporate Reporting on the Internet: Opportunities and Challenges," Paper Presented at Seventh Asian-Pacific Conference on International Accounting Issues, Bangkok..

(Contd. From Page 7)

4)Harper, M. (1998): Profit for the Poor-Cases in Microfinance, Oxford and IBH Publishing Co Ltd, New Delhi.
5)Hausmann, Rodrik, and Velasco (HRV framework) (2005).
6) NABARD (2002): SHG-Bank Linkage Programme for the Rural Poor-An Impact Assessment, NABARD, Mumbai.
7) Puhazhendi, V. (2000): Evaluation Study of Self Help Groups in Tamil Nadu, NABARD,Mumbai.
8) Puhazhendi, V. and Satyasai, K.J.S., (2000): Microfinance for Rural People-An Impact Evaluation, NABARD, Mumbai.
9) www.RBI.Org
10) White H. and E. Anderson (2001). "Growth vs. Redistribution: Does the Pattern of Growth Matter?" Development Policy Review 19(3), pp 167-289.