Problems and prospects of Micro finance and Women Empowerment in Karnataka – An overview

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Abstract

This paper studies microfinance as a unique economic development tool which was introduced with an objective to assist low-income strata of women who aim to work their way out of poverty its challenges and prospects. The microfinance industry in India, which has helped bring financial inclusion to millions of rural families and women, will need an additional capital of up to over Rs 5,000 crore to meet the target of 25-30 per cent growth per year for the next three years. The domestic microfinance sector witnessed a robust double-digit growth of 36 per cent during 12 months ended September 2019, ratings agency ICRA said in a research note. The overall microloan market was reported at Rs 2.9 lakh crore as of September last year on the back of good growth of banks, small finance banks (SFBs) and larger NBFC-MFIs that were relatively well placed on the liquidity front, according to the note.The microfinance sector has witnessed a healthy growth over the years and the industry has evolved over the last two decades, reaching over 25 per cent penetration level in the total addressable market in 2019. It is to note that the biggest target group involved in Karnataka is women in rural areas and account for 99 per cent of the beneficiaries of microfinance in the country. This has further helped bring financial inclusion to millions of rural families.

The sector has also been serving a crucial purpose in the Indian economy, which has been driven by many factors. Meanwhile, the Govt of Karnataka and RBI has been closely examining the sector in order to protect borrowers and lenders as a high level of financial risks is involved.According to the Bharat Microfinance Report, microfinance "through MFIs" is servicing 43 million accounts. About 85% of the accounts serviced with 83% gross loan portfolio are being serviced through NBFC MFIs.

NBFCs and NBFC MFIs are directly regulated by RBI for microfinance operations where the quantum of overall lending to the borrower, the number of providers for each borrower, rate of interest, additional charges are stipulated by RBI. In 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 2 NBFC MFIs as a member of Self Help Group or Joint Liability Group or in his individual capacity.The rate of interest is also calculated as per quarterly calculations of RBI; processing fees and loan protection insurance premium can be charged from the borrowers.

Key words: women, NBFC, Self Help Group, Banking, MFIs, Karnataka, liquidity

Introduction

Micro finance Stipulations are through "Qualifying Asset" norm of RBI for the microfinance sector. In the microfinance sector, NBFC/NBFC MFIs and u/s 8 companies are qualified, by virtue of the definition of "credit institutions" of Credit Information Company (Regulation) Act to upload the borrower level data on Credit Information Bureau. Till this point, the industry seems very appropriate and apt. The devil is in the details. Indian microfinance is extremely complex. There are different legal forms active in the markets i.e. Banks (commercial, Cooperative Banks, RRBs, SFBs etc), NBFCs, NBFC MFIs, U/S 8 companies, societies, trusts, cooperatives etc. NBFC and NBFC MFIs are "For Profit" segment and U/S 8 companies, societies, trusts, cooperatives are "Not-For-Profit" segment.

There are diverse models, Self Help Groups, Joint Liability Groups, Individual, Limited Liability JLGs, etc. There is no uniform regulation for the microfinance sector, NBFC and NBFC MFIs are directly regulated for microfinance operations; u/s 8 companies are finance companies operate with the special dispensation of not to register with RBI; Societies, Trusts, Cooperatives Societies are guided by different acts as per their registration, however, follows all the norms meant for NBFC MFIs to access bank finance, especially Priority Sector Lending; banks are regulated but do not come under the direct regulation for microfinance operation i.e. do not have to follow the guidelines for NBFC and NBFC MFIs. Despite agencies with different legal forms having financial operations, only NBFCs NBFC MFIs and Banks (cooperative banks are not submitting microfinance portfolio) are entitled to upload borrower level data on CIBs.

Point to be noted over here all these institutions are working in the same geographies and the poor people can be a member of all of these groups. The microfinance industry's gross loan portfolio (GLP) stood at ₹1,87,386 crore at the end of March, up 38 per cent year-on-year, said a MFIN report. Today, Microfinance allows the provision of financial services to low-income clients or solidarity lending groups, including consumers and the self-employed, who lack convenient access to banking and related services. It not only helped out in eradicating poverty but also improving the standard of living. All Microfinance Institutions (MFIs) today either function as an NGO registered under societies or trusts, Section 25 companies and Non-Banking Financial Companies (NBFCs). Apart from these, the local political leaders are taking advantages of the non-inclusive nature of the policy framework. They are tweaking the information, misinforming the borrowers and influencing repayment in a substantially negative way. In recent times some of the areas of Assam, Tamil Nadu, Maharashtra, Uttar Pradesh and other this trend is ongoing and it is pernicious for the sector. As because there is no strong overarching policy architecture for microfinance industry the briefing to the other stakeholders and interested parties, on the industry, is not strong and incomplete.

Objective:

This paper intends to explore role of to microfinance in Karnataka to promote social and economic development among women folk also challenges and prospects in, strengthening economy through self-help groups and use them as a tool towards economic development

Reality of the sector in Karnataka

The total number of microfinance accounts was 9.33 crore at the end of March 2019, showing a growth of 21.9 per cent, said Microfinance Institutions Network (MFIN), an RBI-recognised self-regulatory organisation and industry association of the microfinance industry.

Non-Banking Finance Company-Microfinance Institutions (NBFC-MFIs) hold the largest share of portfolio in micro-credit with the total loan outstanding of ₹68,868 crore, which is 36.8 per cent of total micro-credit universe. As on March 31, 2019, aggregated GLP of NBFC-MFIs stood at ₹68,207 crore, 47 per cent year-on-year growth compared to March 2018, said MFIN. In 2018-19, microfinance in India showed rapid, regionally-balanced and resilient growth

Microfinance Industry in Karnataka

Crippling poverty is a characteristic trait of the modern Indian economy. Both the central government and state government-run multiple poverty alleviation programs. The microfinance sector has seen sustained growth over the past few decades. What we see as a vibrant industry empowering a variety of business models today, had humble beginnings. Despite the thriving growth rate, the Microfinance sector is marred by numerous ills in its functioning.

- A large section of the population is still unbanked
- Grey areas in regulations
- Ambiguous pricing models
- Insufficient funds
- Cluster formation
- Over-indebtedness
- Higher interest rates
- Financial Illiteracy of People

Microfinance includes all the initiatives taken by different agencies irrespective of legal forms and models. MFIs and SHGs were there however recently banks are showing interest and mostly operates by Business Correspondence model partnering with MFIs. Other entrants are the P2P NBFCs. Unfortunately, due to the non-inclusive nature of CICR Act, and despite notification from RBI, around 15% of the SHG member level data is being uploaded on CIBs (personal communication), building up of exhaustive data set is a daunting task. Still, in order to understand the market, an effort is being made by pulling together the data from different sources on market share. The available data is on different time frame but has proximity; the data of Not For Profit MFIs is of March 2019; the SHG data is of October 2019 and rest August 2019. There is a challenge to understand the outreach, CIBs have the data on active accounts and in order to remove this challenge the loan outstanding has been taken for a better idea. Considering the overall portfolio (NBFC,

NBFC MFIs, BC of Banks and NFP MFIs) the microfinance sector is having 43.5% of the sector; it would be more if we add on the data of cooperative societies. Still, there is data mix up, as data of around 15% of the SHG's portfolio is in bank segment however it may not be that big an amount. Discounting that fact, the industry may be arbitrarily looking like the pie chart.

In this complexity of microfinance sector of India and unavailability of exhaustive data and regulatory framework, four situations have been emerging.

Probable over lending

First, possible over-lending by the banks as they, though catering the same poor population, but do not have to follow the guidelines of RBI for NBFC and NBFC MFIs. The Not For Profit MFIs are also not under direct regulations still considering the capacity of them, they do not have resources for a bigger amount and cross the limit. The question here is if the borrowers in RBI stipulated income category and by considering their repayment capacity the lending to them has been restricted, then why the banks (also other Non-NBFC MFIs) are kept open for investment in the same category of the population with a larger amount, which is defeating the RBI's effort to protect the poor borrowers from overconsumption.

Data asymmetry

Second, because of the constraints emanating from Credit Information Company (Regulation) Act, only banks, NBFCs and NBFC MFIs are uploading data on CIBs, keeping societies, trusts, cooperative societies out. Eventually, there is no strong data on cooperative societies and which can eventually be huge in number. Personal discussion with CIBs revealed that only 15% of the SHG's member level data is uploaded by the banks on CIBs, despite clear instructions from RBI. So till now, the information provided by CIBs on the indebtedness is not full proof. The question here is once again, why RBI is not notifying all the institutions providing loans to the stipulated income group for uploading data on CIBs. RBI may raise the issue on the authenticity of the data as the other NFP MFIs are not regulated by them; in this situation, they can always work with the SROs for NBFC MFIs for ensuring the authenticity of the data.

Receding Not For Profit segment

Third, the genesis of the microfinance sector is through NFP MFIs also its easy to establish. They have their major presence in the deeper geographies. Despite their positive side, they are not getting support from the banks because they are not regulated by RBI. The fall out of this is first, the NFP MFIs in order to cater to the need of the clients, are sourcing expensive funds from NBFCs resonating to the provisioning of costly credit to the borrowers. Secondly, the income over expenditure of these institutions goes back to the system, somehow the not for profit objective of the microfinance industry is receding. Thirdly setting up of NBFC MFI needs a considerable amount of finance and the predominant supportive condition is not conducive for operations of NFP MFIs, many social-minded entrepreneurs are being prohibited, so this condition is prohibiting new entrants and facilitating monopoly. The question arises that why the government is not developing a regulatory framework for these institutions which are still out of direct regulation of RBI; MUDRA, RMK etc. can be facilitated as the regulator of these segment. For example, Uganda has established a regulatory framework for other financial institutions and brought all the financial inclusion under regulation.

From the above analysis, it is clear that the Indian microfinance sector is complex and it needs immediate attention of RBI to promulgate exhaustive policy framework primarily to protect the support for poor and financially marginalised people. In RBI, FIDD is promulgating Priority Sector Lending which is the main source of fund for the microfinance sector, DNBR is regulating the NBFCs and NBFC MFIs which is the largest segment in the microfinance sector, DBR is regulating the banks who are coming as a major disruption in the market probably in a negative way. RBI needs to fix this jigsaw puzzle and put them together and institutionalise committee, as soon as possible, to work on with a major objective to create an apt and inclusive policy framework for the whole microfinance segment.

Microfinance Tomorrow

Microfinance is a unique economic development tool that was introduced with an objective to assist low-income strata who aim to work their way out of poverty. India today is underway a major policy objective shift towards financial inclusivity. Thus, Microfinance has taken centre stage for extending financial services to unbanked and underbanked sections of the Indian population. This is why microfinance institutions serve as a better supplement to banks. Not only do they serve microcredit but also help the poor with allied financial services like savings, insurance, remittance and non-financial services like individual counseling, training, and support to start their own business in accessible ways. What works in favour of borrowers is that all these services can be availed right at their doorstep, and borrowers are at liberty to choose their own repayment schedule.

Micro Enterprise Development Programme (MEDP)

Under the scheme, matured SHGs of more than 3 years are provided training for undertaking Income Generation Activities/livelihood activities. During the year 2010-11, NABARD sanctioned 159 MEDPs with a grant assistance of 51.25 lakh covering 4452 individual SHG members. The MEDPs covered wide range of activities like vermin composting, food products, Kasuti works, Beauty parlour, tailoring, integrated agri system, soft toys making, rubber tapping, agarbathi making, etc.As a measure to ensure sustenance of SHGs, NABARD initiated a scheme for supporting SHG Federations during 2007-08. The scheme is presently on a model-neutral basis.

The SHG Federations should not involve in financial intermediation. However, they can support SHGs with various non-financial services like skill development training, procurement of inputs, marketing of products, legal counselling, etc. As on 31 March 2011, NABARD has sanctioned grant assistance of 25.67 lakh to 21 Community Managed Resource Centres (CMRCs) of MYRADA supporting 84 Federations covering 2262 SHGs. NABARD reimbursed 25 per cent of the training cost to WCDD for conduct of Trainers' Training Programme covering supervisors of WCDD and select NGOs. In total, 1750 Trainers were trained. These trainers are now actively involved in training of cluster members of the Stree Shakthi Groups on an ongoing basis. NGOs associated with NABARD for promotion of SHGs are provided grant assistance of a maximum of 50,000/- for purchase of computer for strengthening MIS. NABARD provides software and hardware support to NGOs who have promoted a minimum of 250 SHGs.

During the year 2010.11, grant assistance of 0.50 lakh was sanctioned to one NGO for purchase of computer and for strengthening of MIS.To enable MFIs/ MFOs to leverage funds from banks/ financial institutions, a onetime grant assistance of 3.00 lakh is provided to MFIs/ MFOs to get themselves rated through accredited rating agencies.

MFIs with minimum loan outstanding of 50 lakh and maximum of 10 crore would be eligible. Banks can also avail 100% reimbursement of expenses towards rating of MFIs up to 3.00 lakh by way of grant. During the year 2010-11, an amount of 1.544 lakh was sanctioned to one MFI as assistance for rating. NABARD has supported development of exclusive software known as NABYUKTI by MYRADA to facilitate the Self Help Promoting Institutions to have appropriate database for effective monitoring. NABAKD has been distributing the software free of cost to SHPIs wanting to develop database on the functioning of their SHGs. NABARD has also sanctioned assistance to MYRADA for upgrading the software to a web based solution in various languages that can be directly downloaded from the MYRADA/ NABARD website. NABARD publishes booklets/brochures capturing the developments under SHG-Bank Linkage Programme in the State. Every year NABARD brings out a booklet on the status of SHG-Bank Linkage Programme in the State.

SHG Bank Linkage (1992-93 to 2010-11) in Karnataka

Year	No. of SHGs credit linked	Bank Loan (₹ lakh)	Refinance (₹ lakh)
1992-1993	114	5.73	5.73
1993-1994	51	5.51	5.51
1994-1995	481	77.71	70.71
1995-1996	1046	145.08	145.08
1996-1997	760	159.25	159.12
1997-1998	1138	232.19	228.10
1998-1999	2002	409.86	422.28
1999-2000	5018	1054.81	649.00
2000-2001	8009	1714.00	1404.00
2001-2002	18413	3475.39	2229.00
2002-2003	25146	7249.50	4073.55
2003-2004	41688	13960.37	6090.22
2004-2005	59332	26653.00	9951.00
2005-2006	61730	44266.02	6695.43
2006-2007	92708	81638.87	15599.24
2007-2008	94280	100646.47	12699.52
2008-2009	60319	120702.37	19219.00
2009-2010	57975	123355.55	22463.30
2010-2011	49759	144702.80	16477.80
Total	**579969**	**670454.48**	**118587.59**

Source: NABARD, 2011-12.

Role of Banks and NABARD

Banks in Karnataka have given due importance to SHG-Bank Linkage programme. The overall credit flow during the year 2010-11 is l, 477.03 crore taking the cumulative bank loan to 6,581.72 crore. All the three agencies viz., Commercial Banks, RRBs and Cooperative Banks have made significant contribution to the programme.80 per cent of the loans of the MFIs to SHGs are through borrowings from Commercial Banks. During 2010-11, an amount of 364.20 crore has been lent through MFIs to SHGs. The average loan per SHG has increased from 1.19 lakh to 1.75 lakh registering an increase of nearly 47 per cent by Commercial Banks. During 2010-11, RRBs have also made significant disbursement and have disbursed 377.11 crore. Some RRBs like Karnataka Vikas Grameena Bank and Pragthi Gramin Bank are also lending to SHGs through MFIs. The average loan per SHG has increased from 1.11 lakh to 1.32 lakh registering an increase of nearly 18 per cent. Cooperative banks with support from GoK in the form of interest subvention, has increased their lending to SHG over the years. During the year 2010-11, they have disbursed loans amounting to 410.01 crore.

The average loan per SHG has increased from 0.95 lakh to 1.20 lakh registering an increase of nearly 27%. The State Cooperative Bank has come out with a Vision Document 2010, wherein they have estimated formation and linkage of SHGs for the next five years. As per the vision document, the Cooperative Banks intends promoting around 1.25 lakh SHGs by 2015 and provide linkage to 1.40 lakh new Groups. Micro Finance Institutions (MFIs) The MFIs in Karnataka are registered either as NBFC-MFIs under Companies Act or as MFO under Trust/ Societies Act. Out of 48 MFIs that are active in the State, 23 have registered themselves with Association of Karnataka Microfinance Institutions (AKMI). As on 31st March 2011, the MFIs registered with AKMI have a total outstanding of 2944.62 crore. NGOs There are around 800 NGOs operating in the State, out of which 170 NGOs are working with NABARD as SHPI partners. The NGOs have played a very crucial role in SHG-BLP movement. They have remained a crucial link between SHGs on one side and banks/developmental functionaries including the Government on the NABARD .

NABARD sees the promotion and bank linking of SHGs as part of an overall arrangement for providing financial services to the poor in a sustainable manner and an empowerment process for the members of these SHGs. Right from the pilot phase, NABARD is actively involved in the SHG-BLP movement. NABARD facilitates interaction among the stakeholders to address various issues relating to up scaling the SHG-Bank Linkage, besides continuing its various promotional and developmental interventions. The initiatives taken by NABARD in SHG-BLP are discussed.

NABARD Financial Services Ltd (NABFINS) is a subsidiary of NABARD with Government of Karnataka and a few public and private sector banks as co- equity holders. NABFINS is collaborating with NABARD in developing innovative business models for extending microfinance to the poor. NABFINS endeavours to reduce clients' risks while keeping the interest rates on loans to SHGs low. It has adopted a Business Correspondent (BC) model as one of its principal verticals in its business model. Under this model, NABFINS identifies NGOs, SHG Federations, etc. who have a good record of accomplishment of working with the poor, as its BCs to reach out to the SHGs of poor. NABFINS and the BCs then together assess the suitability of the SHGs identified by the BCs for direct financing by NABFINS.

The BC not only identifies suitable SHGs for financing by NABFINS, but also collects the recoveries and passes it on to NABFINS. BCs receive commission from NABFINS for the services rendered. They also have access to NABARD promotional assistance through NABFINS for organisation and nurturing of SHGs and for extending skill trainings and exposure programmes for SHG members. NABFINS also assist the BCs in accessing funds for other economic activities for the poor taken by BCs like watershed development etc.

Prospects of the Microfinance sector functions in the future:

Proper Regulations:

Unscrupulous ways of lending followed by some MFIs call for greater scrutiny and need for still stricter regulation. With the introduction of innovative operational models, regulations have become a necessity. Given the high growth trajectory of MFIs, it's important to have a regulatory environment that not only protects the interest of stakeholders as well as promotes further growth.

Field Supervision:

Field visits are an optimum way of monitoring the conditions on the ground. These ensure a strict check on the performance of the ground staff of various MFIs and their recovery practices and timely initiation of corrective action if needed. Field supervision also encourages MFIs to abide by proper code of conduct and work in the most efficient way possible. The sector as a whole needs to work out the problem of feasibility and cost involved in physical monitoring of this vast sector.

Encourage Rural Penetration:

Hoping to reduce the initial cost of operations, MFIs are interested in opening their branches in places which already have fully operational MFIs. There is a need to encourage MFIs for opening new branches in areas of low financial penetration by providing financial assistance and subsidies. This is a proven way to increase the outreach of microfinance in the state.

Complete Range of Products:

MFIs are renowned for offering a range of products including credit, savings, remittances, financial advice and also non-financial services like training and support. Playing the role of a substitute to banks in areas where people are financially illiterate and severely underbanked, MFIs need to offer a complete range of products to help the poor break the cycle of poverty.

Transparency of Interest Rates:

Different MFIs employ different patterns of interest rates and additional charges like interest-free deposits. This boils down to confusion about pricing in the poor borrowers. It also renders the borrower incompetent in terms of bargaining power. It is recommended that uniform interest rates be charged by all MFI players in the market, which would give the beneficiary the freedom to compare different financial products before buying.

Bring in Technology to Reduce Operating Costs:

It is for the best if MFIs leverage technologies and IT tools to reduce their operating costs. NBFCs are adopting such cost-cutting measures in a widespread way. Not only do automation tools lead to a low cost per unit of money lent (9%-10%) but also make loan origination processes more transparent and efficient for the borrower's perspective. Finezza is one such lending management software tool that leads to a complete overhaul of the loan disbursement process of NBFCs leading to cost-effectiveness and brings home higher returns.

Alternative sources of Fund:

With restricted funding, the growth and outreach of MFIs remain limited. In the absence of investment by outside investors, MFIs are severely limited to what they can borrow to a multiple of total profits and equity investment. In order to grow, MFIs need to raise their Equity through outside investors. The only way to overcome this problem is that MFIs should look for other sources for funding in their loan portfolio. MFIs always have an option to opt for conversion into a for-profit company,i.e. an NBFC.

Along with the change in status, the MFI should also develop a strong board, a quality management information system (MIS) and obtain a credit rating to attract potential investors. If a financial institution purchases the rights to future payment stream from a set of outstanding loans granted by MFIs, it is called portfolio buyout and can be a good alternative source of funding for MFIs.

Ensuring High Repayment Rates for MFIs with Mobile Banking Platforms:

While all MFIs emphasize on achieving high repayment rates, the process demands massive manpower on-field. Manual intervention further makes the process slow and inefficient. Given the circumstances, technology is transforming the industry radically by increasing outreach. Followed by demonetization in India, the trend of cashless payments systems is on the upsurge in rural India. What's interesting is that India is home to more than 1 billion mobile subscribers, and there is immense scope to capitalize on it.

Conclusion

In the end, it would be simple to conclude that the most impactful influences that changed the way microfinance industry functions in India is the rapid rate of digitisations. Automotive lending management solutions and other software tools not only speed up the way microfinance is executed, but also leverage the internet penetration in the rural areas. Using tools that streamlines the process of loan origination and evaluation and adds to the functionalities of the lending platform. Not only does it enhance the overall user experience for the borrower, but it also makes the process simpler for the lending partner as well.

The unique 360-degree lending management solution allows microfinance lenders to access the huge untapped sector of the Indian economy without any need for manual intervention, excessive paper load and massive wait times.

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