

ASSESSMENT OF OUTREACH OF MICRO FINANCE INSTITUTIONS IN MADHYA PRADESH

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Abstract

Microfinance allows individuals to get small business loans in accordance with moral lending criteria. In India, microfinance services are more often distributed through either the bank-led Self-Help Groups-Bank Link Programme plan or the Microfinance Institutions Institution driven strategy. The major part of non-profit MFIs are certified as trust or societies, and their operations are governed by the respective Acts. The vast majority of non-profit organisations serving as financial mediators in business were established as trust or societies. Many of them contributed to the growth of the industry by supporting SHGs to form federations that carried out many non-financial but crucial responsibilities, such as socially and capacity building activities, SHG promotional trainings, internal audits, and functioning as backward and forward links. Traditional banking institutions provide the largest access to financial services; nevertheless, microfinance organizations are playing an increasingly crucial role in providing the unbanked with financial services. The state of Madhya Pradesh has pledged to attain truly representative financial inclusion. Madhya Pradesh makes a lot of attempts to democratize the financial services. Direct account transfer has been incorporated into all significant beneficiary-focused government programmes as part of the state's aim to broaden the use of digital financial services. The phrase "NGO MFI" is commonly used to refer to all MFIs of this sort that are registered as societies, trusts, or section 8 businesses because they are primarily social enterprises with the goal of helping the needy rather than making a profit from their microfinance operations.

Keywords: Microfinance, Microfinance Institutions (MFIs), SHG, Madhya Pradesh, financial services.

INTRODUCTION

India's population is growing quickly, thus it was necessary to offer similarly effective financial services. The idea of microfinance arose in India in order to address the rising credit demands. Microfinance is a source of financial services for those who do not have full access to the financial system or who do not have such access at all. They can make savings deposits and obtain loans through microfinance in order to start or grow their businesses. The RBI defines microfinance as the allocation of relatively small amounts of savings, loans, as well as other financial products and services to allow the poor in rural, semi-rural, and urban regions to increase their incomes and level of living. Microfinance was described by Otero (1999) as "the provision of financial services and products to reduced poor and very poor self-employed individuals." Several institutions in India offer microfinance services. In India, a variety of public and commercial institutions offer microfinance services. The phrase "NGO MFI" is commonly used to refer to all MFIs of this sort that are registered as societies, trusts, or section 8 businesses because they are primarily social enterprises with the goal of helping the needy rather than making a profit from their microfinance operations. Different delivery methods for

microfinance are common in the current climate.

Microfinance initiatives make effective and major contribution to reduction of poverty and political, social, and economic empowerment of individuals. The SHG membership has significantly improved the lives of women. Women were encouraged to save money through the microcredit Programme, and they are free to use these facilities anytime they require without any payment of security amount. Avoiding the grasp of the moneylenders is the principal benefit of using this facility. People's status is intimately correlated with their financial situation, and microfinance offers opportunity to advance one's standard of living.

For instance, the HDI for M.p. in 2011 was 0.375, well below the national average. With 28 of the nation's poorest districts, MP has 35.65% of its people classed as living below the poverty line. The state's overall socioeconomic indicators appear to confirm the necessity for substantial action with a focus on financial and economic avenues in order to attain a sustained rate of development. Understanding the role of MFIs and their ability to reach the unbanked population with financial services is essential.

MFIs employ 1.61 lakh people in India through much of 28 States, 5 Union Territory, and 595 districts, with 10% female employees and 61% field labourers. However, a higher attrition rate presented a new problem for the sector last year. The MFI operation's focus on digitization during 2021–2022 saw another significant change. As a result of the epidemic, MFIs are evaluating digital collection tactics that utilise a variety of technologies and partnerships with Payment Banks, Payment Wallets, as well as other payment technologies. (NABARD, Microfinance status in India 2021-22)

SIGNIFICANCE OF THE STUDY

Despite the tremendous growth of the industry in India, there is a significant discrepancy in the amount of microfinance activity throughout the country. Despite the lack of infrastructure in MP, the growth rate of sources of funding remained consistent. Extending Madhya Pradesh's SHG-Bank Connectivity Programme: Utilizing the SHG-Bank Linkage Model, conventional financial institutions offer microloans. The India-specific SHG-Bank connection approach has been exceptionally effective in empowering the disadvantaged through financial aid, service-related, and other creative programmes. Therefore, the research study is entitled **“Assessment of Outreach of Micro Finance Institutions in Madhya Pradesh”**.

REVIEW OF LITERATURE

Morduch (2000) The author criticises the win-win hypothesis, saying that while microfinance institutions are focused on alleviating poverty through their banking system regulations, these norms are not frequently supported by logical reasoning or empirical data.

Despite thorough analysis and a sizable rural bank infrastructure, Basu and Srivastav (2005) found that rural poor people still depend on the informal loan sector because banks continue to ignore their needs. Microfinance strategies designed to assist everyone in need.

2006 saw the examination of microfinance institutions as businesses by Roodman and Qureshi. More than people from the wealthy or middle class, the poor require loans and savings.

Jaffari (2011) pushed for the intensification of microfinance to accelerate economic growth by addressing concerns such as sufficient training for microfinance personnel, financial knowledge for users so they're able to use loans for its purpose intended, client training, and the incorporation of local customs.

In their article, Brown, Guin, and Kirschenmann (2012) The commercialization of micro - finance and the purpose of MFIs are far far from their genuine targeted customers, namely the poor, women, and rural clients, while being a passionately disputed topic among professional, policy experts, and academics.

Impact studies have shown conclusively that microfinance has certain favourable effects and aids in reducing poverty. However, issues and difficulties on both the internal and external levels are preventing the growth of microfinance, according to Nasir (2013), who also noted that the absence of a reliable system for disbursing loans, a lack of product variety, and the relationship between clients and numerous lenders are major obstacles.

Mukherjee (2014) highlighted that the policies of the Indian government that are sufficient to provide credit facilities to the poorest citizens. Subsidies and competition between microfinance organizations to offer loans to deserving customers are absent. Whether it is important in micro finance is debatable. MFIs are now present almost everywhere in the nation, according to Sa-Dhan (2016), however they are still mostly concentrated in a few states.

The goal of Ukanwa's (2017) research was to determine the causes of the poor returns on microloans made by women in rural Africa.

According to a report by Muawya (2014), sustainability and a lack of suitable regulation are the main problems impeding microfinance development. While Jaffari (2011) encouraged the extension of micro - finance to speed up growth by addressing issues such as adequate training for MFI personnel, client financial knowledge so that the credit is used for its intended purpose, client training, and consideration of local customs.

OBJECTIVE OF THE STUDY

1. Determine the scope of Micro Financial Intermediaries in M.P.
2. To comprehend the fundamental notion of microfinance.

RESEARCH METHODOLOGY

Research methodology shows the research set-up, the study design, and the research pattern. It serves as a blueprint and planning sheet for the entire study.

Research Design

In this study, the researcher utilised an exploratory research approach to evaluate the scope of

Micro Financial Intermediaries in M.P.

Collection of Data

Secondary data: Secondary data were collected from a number of resources, include scholarly papers, journals, and other publications.

ANALYSIS TO ASSESS THE OUTREACH OF MICRO FINANCE INSTITUTIONS IN MADHYA PRADESH

In India, a number of sources offer microfinance services. In India, a variety of public and commercial institutions offer microfinance services. Financial service organizations and non-traditional financial organizations can be broadly divided into two types. Commercial Banks, rural regional banks, Apex Development Agencies, and Cooperative Banks are examples of the mainstream financial institutions. Cooperative banks provide microfinance in addition to their usual banking services. As opposed to this, alternative financial institutions, often known as microfinance institutions, focus their operations on providing microfinance services. These MFIs operate under various legal frameworks. They might be Section 8 corporations, mutually aided cooperative societies, NBFC-MFIs, and societies, trust, and cooperative societies. Because the primary goal of the microfinance institutions registered as societies, trusts, and section 8 businesses is to serve the underprivileged, the phrase "NGO MFI" is frequently used to refer to all of these institutions. In this study, both Mainstream and Alternatives Financial Institutions were collectively referred to as Funding Institutions. Different delivery methods for microfinance are common in the current climate.

In Madhya Pradesh, the following microfinance models are operational:

- Self Help Group-Bank Linkage Model (SBLP): In this structure, Co-operative Banks, Rural Regional Banks, and Commercial Banks fund SHGs (Private and Public Sectors).
- MFI model: This model includes financing by JLG, individual loans, and other approaches used by Micro Finance Institutions. These MFIs operate under various legal frameworks.

Performance of MFIs in Madhya Pradesh's (Alternative Financial Institutions)

While the Southern region continues to dominate in term of client outreach and loan volume, neighboring states are also rapidly gaining ground (Source: MFIN, 2018). Odisha (13%) and Bihar (12%), the two states with the largest growth in loan disbursements, respectively. And Madhya Pradesh ranked eighth in terms of the loans disbursed, receiving 4,772 crores, or 9 percent of total loans. The amount of fresh clients is not a function of population or the amount of low-income households. Because the growth pattern is not in line with the number of impoverished households, policy measures are necessary to ensure fair growth.

Since the middle of 2000, MFIs in MP have worked to close the financing access gap. Several new MFIs launched their operations between 2005 and 2010 in the north-south route that borders western MP. However, some non-MP based MFIs (Sagar, Raisen, Rajgarh) that had started operations in the state ended their activities before the conclusion of this time.

Numerous borrowers throughout the state, including those in significant MFI areas like Jabalpur, Indore, Ujjain, and Hoshangabad, probably stopped taking out loans from MFIs as a result of the MFIs' pullout.

In MP, microfinance is in a promising position. The state government, banking institutions, and nonprofits are just a few of the organisations working in microfinance in MP that are eager to help the industry grow. SMITA, E-Shakti, Tejaswani, and other programmes have been introduced to speed up the availability of microloans to low-income customers.

Government and private sector started a microfinance programme with the intention of expanding the reach of these services to the underprivileged, but despite their impressive expansion, things have turned out differently. In M.P., the SHG-Bank Linkage Program has grown. By using a SHG-Bank linkage approach, mainstream financial institutions offer microcredit facilities. An indigenous approach developed in India, SHG-Bank linkage model has been particularly effective in empowering the underprivileged through loan support, related services, and other cutting-edge initiatives. Most banks branches in rural and semi-urban areas where they offer microfinance services using the SHG-B linking model. The NABARD-sponsored SHG Bank Linkage Program, which was first implemented in the nation in 1991–1992, has a significant strategy for advancing financial inclusion and inclusive growth. However, there is a lot of variation in India's SHG-Bank connection program's progress throughout all states. The SHG bank connection programme is successful when the majority of the poor are organized into groups. Group lending models that provide financial services to the underprivileged are a creative option because they do not demand collateral for loans and lower monitoring costs as a result of peer oversight. It is vital to inform the impoverished about the SHG bank connection initiative so that they can form groups. Yet, the levels of group members varies considerably between states, indicating a number of issues. It brings attention to the number of individuals from rural regions that are organized by state into various groups. Comparing to the impoverished population, that is 31.6% below the poverty line, 8.6% of the rural poor in Madhya Pradesh are organized into groups, which is quite low. Nearly everyone who earns more than the poverty threshold is vulnerable. Therefore, it is essential to inform people of the importance and benefits of the SHG bank connection programme. **(Source: Census, 2011)**

In Madhya Pradesh, NABARD arranged for banks to lend SHGs a total of Rs. 4.39 crores. NABARD hosted a Women's Day event for female convicts in the Central Jail in Gwalior region.

Bank Sakhi refers to a woman SHG member who has been designated as a banking agent. Since Bank Sakhis is a member of the community, it is in a better position to encourage other members of the community to utilize financial services. U.P. and M.P. implemented the aforementioned technique as a pilot programme. After the chaos of the pandemic, the sector completed the fiscal year 2021–22 on a high note and is gradually returning to its pre-COVID level. At the conclusion of the financial year 2021–22, the sector's total portfolio—which includes banks and SFBs—was worth Rs. 2,62,599 crore, representing a 5% year-over-year rise. The combined MFI portfolio, comprised of both for-profit and non-profit institutions,

represents for 44% of the industry's total revenue, or Rs. 1,15,917 crore. During the most recent fiscal year 2020–21, the Not-for-Profit MFIs demonstrated an astounding 30% growth, following by that of the NBFC–MFIs with such a 19% YoY growth rate. Tamil Nadu, Bihar, Karnataka, Uttar Pradesh, and Madhya Pradesh make up 59% of the MFI portfolio and are the top 5 states in terms of portfolio share.

Table 1: Progress under pilot project sanctioned to NABFINS (As on 31st March 2022) Amount In lakhs

S. No.	State	JLGs financed (No.)	Loan Amount Released	Loan Amount Outstanding
1	Madhya Pradesh	482	716.50	572.37

Source: <https://www.nabard.org/auth/writereaddata/tender/2707225843somfi-2021-22-final-english.pdf>

Table 2: Savings of SHGs with Banks – Madhya Pradesh position as on 31 March 2022(Amount in lakhs)

State	Commercial Banks		Regional Rural Banks		Cooperative Banks		Total	
	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount
Madhya Pradesh	239192	79817.01	226018	47709.14	7325	890.24	472535	128416.39

Source: <https://www.nabard.org/auth/writereaddata/tender/2707225843somfi-2021-22-final-english.pdf>

Table 3: Bank Loans disbursed to SHGs – Madhya Pradesh position as on 31 March 2022 (Amount in lakhs)

State	Commercial Banks		Regional Rural Banks		Cooperative Banks		Total	
	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount
Madhya Pradesh	44158	63427.50	51237	61254.19	63	14.98	95458	124696.67

Source: <https://www.nabard.org/auth/writereaddata/tender/2707225843somfi-2021-22-final-english.pdf>

In India, the Self-Help Group-Bank Link Programme method, which seems led by banks, and the MFI-driven approach are the two primary means of promoting microfinance services. Many companies in India's microfinance industry provide low-income customers with financial services such as loans, insurance, and pension. There are five major categories of microfinance industry participants: banks, nonbanking financial firms, small finance banks, and nonprofit MFIs. Except for charitable MFIs, every one of these is governed by the RBI. The majority of

non-profit MFIs are structured as trust or societies and governed by the relevant Statutes. The majority of nonprofit financial intermediation entities were registered trust or societies. Many of them contributed to the growth of the industry by supporting SHGs to form federations that carry on numerous non-financial but crucial responsibilities, such as socially & capacity building projects, SHG promotion trainings, internal audits, and functioning as backwards and forward links.

FINDINGS

Microfinance efforts contribute significantly and significantly to the reduction of poverty as well as the political, social, and economic empowerment of individuals. In India, a number of sources offer microfinance services. In India, a variety of public and commercial institutions offer microfinance services. In general, they can be divided into two groups: mainstream financial institutions and alternative financial institutions. In Madhya Pradesh, NABARD arranged for banks to lend SHGs a total of Rs. 4.39 crores. NABARD hosted a Women's Day event for female convicts in the Central Jail in Gwalior region. Bank Sakhi refers to a woman SHG member who has been designated as a banking agent. Since Bank Sakhis is a member of the community, those who are in a better position to encourage others to utilise financial services.

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