

An Assessment of The Impact of NGO-MFIS on Entrepreneurial Development

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Abstract - Microfinance is referred as the provision of credit, savings and other financial products and services of very small amounts to the poor in rural, semi-urban or urban areas in order to enable them to raise their income levels and improve standards of living. Micro credit aims at not only to provide financial support to the poor but also to assist them in finding their way out of poverty that eventually leads to overall development of economy. As financial inclusion has become major policy objective the in India, the term microfinance has occupied centre stage as a promising channel for extending financial services to unbanked sections of population.

Even though the economy of India is growing fast, population is also growing at a faster pace. It is difficult for the government to provide such large population with employment opportunities. It would be a great help for the country, if people especially those from low income group start up their own small business (micro enterprises) to help themselves out; improve their standard of living and also help providing employment to others in their microenterprise. NGO-MFIs aims at developing such income generating skill among excluded and poor, especially women. It provides financial support and training to emerging entrepreneurs who in turn contribute to the nation's economy in general and their family in particular.

Numerous programs have been launched by the Government of India that specializes in supplying small capital loans to low-income entrepreneurs. In most of these programs a large percentage of borrowers are women. Women borrowers constitute 97% of the total clientele of MFIs; SC/ST borrowers constitute 30% and minorities 27 %.(Bharat microfinance report, 2016). The increasing rate of women participation in microfinance sector has raised many research questions and inspired number of empirical investigations in the relevant field.

The present study is a review article where researcher tried to analyse the role of NGO-MFIs in delivering microfinance, training and supporting entrepreneurial activities of women. The present study also tried to find the future of microfinance in India. The present study is undertaken with the following specific objective: An Assessment of the impact of NGO-MFIs on Entrepreneurial Development of Women

Keywords: Microfinance, Micro Credit, Financial Support, Financial Inclusion, Entrepreneurial Development.

I. INTRODUCTION

“Microfinance is termed as a provision of financial products and/or services to low-income groups or solidarity lending groups including consumers and the self-employed persons, who generally lack access to banking and other related services.” Micro credit aims at not only to provide financial support to the poor but also to assist them in finding their way out of poverty that eventually leads to overall development of economy. As financial inclusion has become a major objective in most of the government policies of the country, microfinance has become a key instrument in supplementing the need to the unbanked

sector of the society. Microfinance aims at developing income generating skill among excluded and poor specially women. It provides financial support to emerging women entrepreneurs who in turn contribute to the nation's economy in general and their family in particular. These programs have distinctive contribution towards empowering women and promoting their social and economic upliftment in rural areas.

Features of Microfinance

Now a days agencies like government and non-government organisations are involve in micro finance development initiatives. The common features of micro finance are:

- Borrowers are from the low income group.
- Micro-Loans i.e. loans of small amount.
- Loan for short duration of time.
- No collateral is required for attaining such loan.
- High frequency of loan repayment.
- The purpose of loan is for generation of income.

Microfinance is a major contributor to the various central and state government poverty alleviation programme. Studies show that Micro finance has played a prominent role in reducing poverty and empowering women in the past few decades. The beneficiaries of Microfinance are being able to increase their family income and afford a better standard of living. Microfinance has placed as a key strategy in most of government's poverty alleviation and financial inclusion programmes.

OBJECTIVES OF THE STUDY: The present study tries to assess the impact of NGO-MFIs in development of women entrepreneurship.

- To analyse status of Microfinance programme in India.
- To study the key issues with microfinance programmes.
- To assess the role of NGO-MFIs in development of entrepreneurship.
- To assess the future of microfinance programme in India.

II. LITERATURE REVIEW

Barry et al. (1996): states that Micro finance plays a crucial role in making people self-sustained and financially viable. They have high potential to attract resources and provide services to the clients. Still only 2% of small entrepreneurs have access to the services of micro finance.

Ngozi G. Iheduru (2002): explained about the ways in which microfinance programmes, both government and non-government, have driven financial sustainability and integrated community development among women in Nigeria. He concluded that the aim of micro-finance is to provide access of financial services to the poor for sustainable livelihood. Micro credit and micro finance has played an important role in rural development and poverty alleviation.

Vincent. Guy (2002) has emphasised on the concept of Sustainable Micro entrepreneurship in developing countries. Despite several challenges ahead in the emerging micro finance industry, the process of sustainable micro entrepreneurship combine to provide a potential relief to the poverty crisis of the 21st century, and the a sustainable future.

Suharko (2007) made a comparative study of the role of NGOs in poverty reduction in Indonesia and India. He found that the involvement of NGOs in Micro-Finance sector has shown positive results in developing countries. In

order to address the limitations and to enhance their performance, NGOs have to deal with some challenges: strengthening local institutions and linking them with supra-local level of development agencies, scaling up their innovative development program, building synergy with the government and the private sector, and engaging in advocacy for pro-poor development policy.

Baruah Bipasha (2010), while addressing issues of non-governmental organisations, states that despite worldwide enthusiasm about micro finance and micro credit for the development and financial inclusion of the poor, there is little focus on the effectiveness of NGOs in development.

Rajendra.K, Raya R.P. (2011) has narrated the role of NGOs in delivering microfinance through self-help groups (SHGs). They concluded that Non-governmental Organisations play a vital role in motivating and helping rural women to form Self-Help Groups.

Biswas P Manju, Mohan M R Rao (2014) explained about the role of non-governmental organisations in empowering women. The findings of the study revealed that the Indian Micro-Finance sector has shown significant growth during the twenty first century. Overall they have become more productive and profitable, but they have lost their objective of providing accessibility of finance to the poor and excluded ones.

Naeem Abdul, S. Faqir, Muhammad Jan (2014) states that the positive results have been recorded on beneficiaries of Micro finance in respect of entrepreneurial development, financial securities and resources as compared to non-beneficiaries. Though there is no positive social impact of micro finance. So, micro finance empowers women more economically than socially.

Karuppanan, Rajendran, (2014) has conducted an empirical study in Vellore district of Tamil Nadu on the role of NGOs in micro finance. He concluded that the NGOs play an important role in formulation of SHG and linking them to Banks. They help SHG by arranging credit for them and training them in income generating activities.

RESEARCH METHODOLOGY: The present study is an analytical study based on the secondary data published in reports, research papers and magazines.

III. STATUS OF MICRO FINANCE IN INDIA

Microfinance sector has grown tremendously from micro savings to microcredit and then to micro enterprises and it has now entered the field of micro insurance, micro pension too. Micro Finance Institutions (MFIs) operate in 29 States, 4 Union Territories and 588 districts in India. There are 166 MFIs having network of branches, 12,221 employees, 39 million clients with an outstanding loan portfolio of Rs63,853 crore are all time high. The managed portfolio is of Rs 16,914 crore. Out of it, BC portfolio accounts for Rs

7,984 crore. Out of average loan outstanding 94% of loans issued by MFIs were used for income generation purposes (Bharat microfinance report 2016). In last two decades, financial inclusion through microfinance is continue to play a leading role in the country. They have joined hands proactively with informal delivery channels to give microfinance sector the necessary boost.

NABARD has initiated in year 1986-87 by supporting and funding an action research project of self-help groups of Mysore Settlement and Development Agency (MYRADA) on saving and credit management. Later in year 1992 NABARD has formally started micro finance movement by linking Self-Help groups with the banks. Since then there are many NGOs such as Association of Serva Seva Farm (ASSEFA), People Rural Education Movement (PREM), Professional Assistance for Development Action (PRADAN), Community Development Society (CDS), etc. performing excellent task of promotion of self-help group, mobilisation of savings and distribution of credit.

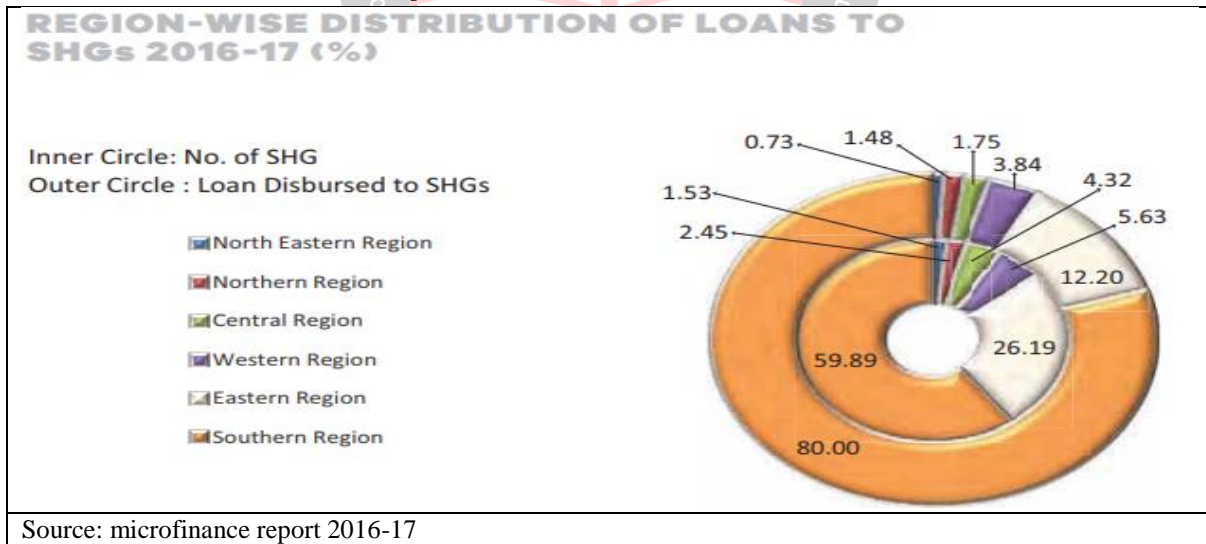
NABARD propagated the concept microfinance in mid 90s throughout the region, prior to that SIDBI had started funding some NGOs for lending to groups but then it was premature and so default rate was high. During the early nineties, Rashtrya Grameen Vikas Nidhi (RGVN) played a pivotal role in supporting small NGOs in developing self-help groups (SHGs) through its NGO support programme. In 1996-97, RGVN started the Credit Support Programme (CSP) and began working in various clusters in Assam and Meghalaya by providing revolving fund to many groups.

There are number of researches been conducted to analyse the role of NGOs in improving social and economic conditions of women. Besides all effort and importance of NGOs in microfinance there still exists a considerable gap between demand and supply side of NGO-MFIs. NGO-MFIs act as great support to government in implementing its policies on financial inclusion of deprived section of the society due to their direct contact with beneficiaries.

IV. KEY ISSUES OF MICROFINANCE IN INDIA

Though, microfinance has made significant progress in India both in terms of coverage and outreach. However, there are some major issues related to microfinance sector in India which deserve attention.

- **Outreach and Coverage:** The coverage of poor families in SHG movement is yet to get momentum in some states like Bihar, North-eastern states, etc. Out of 52 million poor families (260 million poor individual) in the country, only 11.6 million families (58 million poor individual) or 22.3 per cent of the poor families were covered by the end of March 2003.
- **Regional imbalances:** Microfinance tends to be concentrated in rural areas as opposed to urban areas and in South India as opposed to North India. 58% of NABARD's clients live in one of the four states i.e. Andhra Pradesh, Tamil Naidu, Kamataka and Uttar Pradesh that make up South India and 78% of loans facilitated by NABARD were distributed in South India. Furthermore, 8 out of the top 10 MFIs work in South India.



- **Financial sustainability:** Despite excellent prospects of this sector, with low loan default rates and untapped demand for financial services by low-income groups, only 1 % of MFIs is self-sustainable and average Adjusted Return on Assets (ARO) is still negative across all continents.
- **Technology and resource constraints:** Among the major reasons for poor performance are MFIs' lack of access to recent technologies, their limited financial muscle and reliance on government funds, the higher costs of servicing a larger number of clients located in remote rural areas and lack of professional staff.

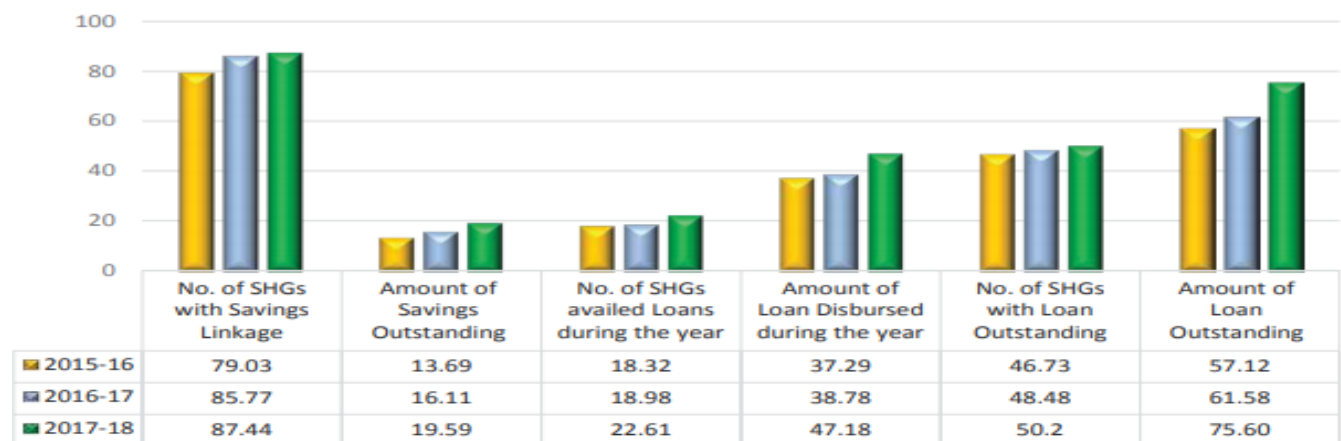
- **Mission drift:** An uncontrolled commercialisation of microfinance may result an undesirable consolidation of profit oriented players at the expenses of smaller and less competitive ones targeting more profitable customer segments. This would go far beyond the 'paradigm shift' and may well lead to a destruction of the social objectives of microfinance.
- **Regulatory and policy issues:** As of now, many of the MFIs are not under regulation and control. In absence of any regulation and supervisions, healthy growth of microfinance sector is difficult. In the recent Malegam's Report of RBI on issues and concerns in the MFI sector, has also recommended for regulation of MFIs by RBI in similar line with the regulation of Non-Banking Financial Companies (NBFC).
- **Operational inefficiency of most MFIs:** mainly due to their small size, fast growth, and lack of expertise of their management. Information asymmetry between MFIs and their customers. Collection of information about client is costly and MFIs are reluctant to share it, which makes the industry inefficient especially in competitive environments.
- The microfinance market in India is not well developed in relation to the potential market, in terms of number of clients, range of services and range of institutional models.

V. ROLE OF NGO-MFIs IN ENTREPRENEURIAL DEVELOPMENT OF WOMEN

Entrepreneurial development has become the major policy objective of almost every government policy and program. As it serves the solution of twin problem, on the one hand it makes idle resource of country i.e. unemployed women productive on the other hand it empowers them by making them self-sufficient. The need for development of entrepreneurial activities gain more importance for socio-economic development of unprivileged section of the society especially women at grass root level. In order to fulfil the objective of developing entrepreneurial skill among the women several self-employment and anti-poverty programmes like PMRY, TRYSEM etc., were introduced by the government. The purpose behind this was the upliftment of poor and unprivileged section of the society. However, these programmes were not been able to achieve their objectives due to some or the other limitations. This encourages NGOs to take the lead in the field of entrepreneurial development activities, besides their traditional role in health, sanitation, family planning, environment protection etc. The government agencies supported the NGOs by collaborating with them to reach the lower section of the society. There are number of NGO-MFIs registered with NABARD working towards linkage of SHGs (Self-Help groups) to the banks and developing entrepreneurial skill by training and counselling programmes.

Figure 4.1 : Progress of SHG-BLP during Past Three Years

(No. of SHGs in Lakh, Amount in ₹000 crore)



Source: Microfinance report 2017-18

The NGO-MFIs involved in entrepreneurship development can be classified into three types:

- **Primary Level NGOs:** Are those who mobilise their own resources, execute developmental programmes by themselves. Some of the primary NGOs are: ACTIONAID, OXFAM, Christian Children Fund, etc.
- **Intermediate NGOs:** Are those who collect funds from various agencies, impart training and provide counselling programmes for the targeted groups. Such as: SEWA, AWAKE etc.
- **Grass Root Level NGOs:** Are those NGOs who are in direct contact with the people; they conduct field surveys and understand the problems of the people. They provide services as per the requirement of the people at the grass root level. Such as RUDSETIs, ANARDE Foundation (Gujarat), Indian Institute of Youth Welfare (IYW) of Maharashtra etc.

NGO-MFIs serve the purpose of fulfilling the requirement of microfinance as well as encouraging women engage in self-employment activities by training and development programmes. The training and development programmes of NGOs can be broadly classified in three categories:

- **Stimulation:** In order to develop entrepreneurial attitude among women NGOs conduct EDPs (Entrepreneurial Development programmes) and other training programmes for the target group.
- **Counseling:** In order to develop competency in preparing project, purchase of plant and machinery, performing procedural and decision-making task etc., NGOs provide counselling and consultancy services to the beneficiaries.
- **Assistance:** Supporting and helping the beneficiaries in marketing their products and in securing finance from microfinance institutions.

NGOs serve edge over advantage to other microfinance institutions due to the following reasons:

- As they work at grass root level, so they are good at mobilising and motivation poor in remote areas.
- They empower poor women to gain control of their lives. They work with local institutions and strengthen them.
- They are good at carrying out programmes at lower cost as compare to other government and private agencies.
- They promote sustainable development as they are in continuous touch with the beneficiaries.

The economy of India is growing fast; population is also growing at a faster pace. It is difficult for the government to provide such large population with employment opportunities. It would be a great help for the country, if people especially those from low income group start up their own small business (micro enterprises) to help themselves out; improve their standard of living and also help providing employment to others in their microenterprise. NGO-MFIs aims at developing such income generating skill among excluded and poor, especially women. It provides financial support and training to emerging entrepreneurs who in turn contribute to the nation's economy in general and their family in particular.

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Presently, there are number of NGOs working in the country for the entrepreneurial development of women.

Some of the prominent NGOs are: National Alliance of Young Entrepreneurs (NAYE), World Assembly of Small and Medium Entrepreneurs (WASME), SEWA, AWAKE (Association of Women Entrepreneurs), Xavier institute for Social Studies (XISS) and Rural Development and Self-Employment Training Institute (RUDSETIs).

VI. FUTURE OF MICRO-FINANCE AND ENTREPRENEURIAL DEVELOPMENT

In present scenario, when there is lot of emphasis on empowerment of women, development of entrepreneurship and skill in most of the government programmes and schemes such as Make in India, Start Up India, Skill India etc., microfinance institutes seems to touch it's all time high in coming years. In contrary to recoil faced by microfinance institutes in 2010 from borrowers and politicians. At that time many micro finance clients become defaulters of loan repayment which causes huge loss to many prominent microfinance institutions. After that crisis microfinance institutes constituted self-regulatory organisation known as MFIN (Microfinance Institutions Network) to address grievances of microfinance beneficiaries, formulate the code of conduct for microfinance institutions and supervise the actions of micro finance institutions. Studies revealed that the future of micro finance sector quite promising:

- High loan portfolio growth is expected in coming 3 years. The top MFIs are expected to double their size in few years. The microfinance institutes are expected to rise at a rate of 30 to 40 percent per annum.
- Eight MFIs have given license and they are expected to commence operation in coming year. Bandhan Financial Services is first of its kind which transformed into full-fledged bank.
- Many financial services providers such as Esaf Microfinance, Equitas, Suryoday Microfinance and Ujjivan Financial Services are going to offer their shares to public by way of IPO's (Initial Public Offers). They are expected to begin their initiative within six months.
- Private Equity investors continue to pour in funds into private unlisted microfinance companies. This shows that banks have again gain confidence in this sector. There are number of microfinance institutions that have raised their amount through loan securitization.
- The credit rating outlook of 12 micro finance institutes is elevated in FY 2015-16. This shows that micro finance sector has fully recovered from its past setbacks.
- The launch of MUDRA scheme by present prime minister of country has helped MFI's to refinance their loans easily. Many microfinance companies have taken loans from MUDRA.

- The launch of Jan Dhan Yojana by government of India for financial inclusion also facilitated many micro-finance institutes as they can now directly disburse money into bank accounts.

Though it is too early to pass judgement on the scheme, but the keen interest of government towards financial inclusion, entrepreneurial development and women empowerment indicates that the future of micro finance is encouraging. As NGO-MFIs work at grass root level can effectively work as means of implementation of government schemes and objectives effectively.

VII. CONCLUSION

The role of NGO-MFIs can better be understood after analysing their strengths and weaknesses with respect to entrepreneurial development of women. The NGOs have shown edge over strengths to other micro finance institutes as they incur minimum overhead and operating costs to reach the poor and needy. Their flexibility and responsiveness in operation provide appropriate solution to the problems of beneficiaries. Their nearness to client groups made them to be sensitive to community need. They possess capacity for innovation and experimentation with new groups and untried development approach. They also help in stimulating and mobilizing interest of women beneficiaries towards their strengths and capabilities. The objective of NGO-MFIs is to assist the poor women to be self-dependent and customer satisfaction is their prime motive. They also act as a test bed and sound board for government policies and programmes. That one cannot imbue in others what one cannot possess oneself applies to the NGOs also.

Besides above-mentioned advantages of NGOs in microfinance, they have their own limitations too. The most common is sincerity on the part of operations of NGOs. Many NGO-MFIs been black listed by NABARD. There are number of NGO-MFIs listed on papers only and are not functional. The most important issue is sustainability of entrepreneurial activities among beneficiaries. Although there are few limitations of microfinance through NGO but still their contribution in the relevant field cannot be overlooked. The studies have proved that NGOs in India are quite successful in imparting entrepreneurial skills among its beneficiaries.

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