A STUDY ON VARIOUS DIMENSIONS OF PROBLEMS AND PROSPECTS OF MFI’S IN UDAIPUR CITY

YOGITA WAGH
ASSISTANT PROFESSOR,
IB INSTITUTE OF ENGINEERING & TECHNOLOGY, HYDERABAD

ABSTRACT
The growth of microfinance in India has also to be seen in the light of financial sector reforms in India starting from 1991 and the global emphasis on commercialization of the sector. The financial sector reforms in India have focused on fostering a market based financial system by increasing competition and improving the quality of financial services. The new approach has been deeply influenced by the reorientation among international rural financial policy makers centering on concepts such as self-help, self sustained growth and institutional viability. This study is an small attempt to study the various dimensions which will give a base to researcher to identify the problems encountered by Micro finance institutions and to identify those dimensions which will identify the prospects of micro finance institutions Udaipur city. Thus this study is a small attempt to identify the factors of success of MFI’s in Udaipur which will in turn help to identify the problems and prospects of MFI in Udaipur.

KEYWORDS: Microfinance, financial inclusion, MFIs, ROSCA’s, RMK, Nabard, IFAD.

INTRODUCTION
Financial exclusion to inclusion is major concept that defines microfinance. Indian economy is a large economy having large no of financial institutions providing financial services to large number of people but still there are some disadvantaged people of lower income groups that are unable to access this services .So financial inclusion focuses to include such people who cannot access to financial services provided by financial institutions. Micro finance is assumed to be a powerful tool for elevating poverty these days. There are various definitions which define micro finance would like to define easier terms as it is overall mechanism through which financial inclusion can be done by providing such financial products to disadvantaged people of lower income groups which are specially designed for these purpose.
The proposed Microfinance Services Regulation Bill defines microfinance services as “providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for:
1) An amount, not exceeding rupees fifty thousand in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) or
2) An amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing purposes, or
3) Such other amounts, for any of the purposes mentioned at items (i) and (ii) above or other purposes, as may be prescribed.”
The poor, like the rest of society, need financial products and services to build assets, stabilize consumption and protect themselves against risks. Microfinance serves as the last-mile bridge to the low-income population excluded from the traditional financial services system and seeks to fill this gap and alleviate poverty. Microfinance loans serve the low-income population in multiple ways by: (1) providing working capital to build businesses; (2) infusing credit to smooth cash flows and mitigate irregularity in accessing food, clothing, shelter, or education; and (3) cushioning the economic impact of shocks such as illness, theft, or natural disasters. Microcredit belongs to the group of financial service innovations under the term of microfinance, other services according to microfinance is micro savings, money transfer vehicles and micro insurance. Microcredit is an innovation for the developing countries. Microcredit is a service for poor people that are unemployed, entrepreneurs or framers who are not bankable. The reason why they are not bankable is the lack of collateral, steady employment, income and a verifiable credit history, because of this reasons they can’t even meet the minimal qualifications for a ordinary credit. By helping people with microcredit it gives them more available choices and opportunities with a reduced risk. It has successfully enabled poor people to start their own business generating or sustain an income and often begin to build up wealth and exit poverty.

**Micro Finance Institutions:**
An organization or association of individuals including the following if it is established for the purpose of carrying on the business of extending microfinance services:
1) A society registered under the Societies Registration Act, 1860,
2) A trust created under the Indian Trust Act, 1880 or public trust registered under any State enactment governing trust or public, religious or charitable purposes,
3) A cooperative society / mutual benefit society / mutually aided society registered under any State enactment relating to such societies or any multistate cooperative society registered under the Multi State Cooperative Societies Act, 2002 but not including:

- A cooperative bank as defined in clause (cci) of section 5 of the Banking Regulation Act, 1949 or
- A cooperative society engaged in agricultural operations or industrial activity or purchase or sale of any goods and services.”

**Micro Finance Approaches:**

1. SHG – Bank Linkage - Dominant Model
2. Financing through MFIs - Emerging Model
3. Group based government programs.

**Apex Agencies Involved**
- NABARD
- SFMC - SIDBI Foundation for Microcredit
- RMK
- FWWB
- Government of India – PMRY, SJSY.
**Types of MFI’s:**

Microfinance itself is a credit lending model, and within this lending model exist several subcategories, i.e. microfinance lending models, which differ in terms of where their funds are sourced from, and how the money is governed.

- **Microfinance Lending Model 1:** Associations
- **Microfinance Lending Model 2:** Bank Guarantees
- **Microfinance Lending Model 3:** Community Banking/ Grameen Bank/ Village Banking
- **Microfinance Lending Model 4:** Cooperatives
- **Microfinance Lending Model 5:** Credit Unions
- **Microfinance Lending Model 6:** Non-Governmental Organizations (NGOs)
- **Microfinance Lending Model 7:** For-profit Banks
- **Microfinance Lending Model 8:** ROSCAs Rotating Savings and Credit Associations (ROSCAs)

**Importance /Need of the study:**

Since the 1950s, various governments in India have experimented with a large number of grant and subsidy based poverty alleviation programmes. Studies show that these mandatory and dedicated subsidized financial programmes, implemented through banking institutions, have not been fully successful in meeting their social and economic objectives: The common features of these programmes were:

i. Target orientation
ii. Based on grant/subsidy, and
iii. Credit linkage through commercial banks.

These programmes

a. Were often not sustainable
b. Perpetuated the dependent status of the beneficiaries
c. Depended ultimately on government employees for delivery
d. Led to misuse of both credit and subsidy and
e. Were treated at best as poverty alleviation interventions.

Some major problems which can be quoted are:

1) Banks too never really looked on them as a profitable and commercial activity. According to a 1995 World Bank estimate, in most developing countries the formal financial system reaches only the top 25% of the economically active population - the bottom 75% have no access to financial services apart from moneylenders

2) In India to the formal financial institutions have not been able to reach the poor households, and particularly women, in the unorganized sector. The problem has been compounded by low level of influence of the poor, either about their credit worthiness or their demand for savings services.

3) The study in this particular region is needed because of presence of MFI’s which are basically focusing on SHG model to provide micro finance services as being a backward region needs for financial inclusion to a deeper level.
4) The micro finance area needs further expansion which needs further research in Udaipur as well in whole country to give formal structure for more regulations in this particular sector.

Objectives of Research:
- To study the pattern of growth of Micro Finance in Udaipur.
- To document the emerging issues and prospects of Micro Finance.
- To explore how far MFIs in Udaipur have been successful in strengthening the formal financial system in the process of nurturing rural poor.

Brief History of Rajasthan:
Rajasthan is the largest state in India and the peculiar natural, social and economic features of Rajasthan define the need and scope for a strong microfinance movement. The primary sector dominates the essentially agrarian economy, with 2/3rd of the population dependent on agriculture and allied activities for their livelihoods. As per the Human Development Index, Rajasthan comes at 12th rank among 15 major states in India. In terms of availability of credit from RFI the state is among the least privileged states. This is reflected in the number of bank outlets per lakh population, per capita bank deposits, per capita bank credit and, over all credit deposit ratio. In all these respects Rajasthan is lagging. For example, per capita bank deposit in Rajasthan is Rs 6151, as against Rs. 12922 for the country as a whole; per capita bank credit in Rajasthan is Rs.3355, as against Rs. 7486 for the country. Overall bank penetration is also low.

Udaipur:
Udaipur situated in the Southern part of Rajasthan. The rural population consists primarily of tribal (68%) and other disadvantaged communities whose resources are severely limited. The area is characterized by rocky and hilly terrain, low rainfall and extreme temperature variations (4-48 deg C). The local population continues to remain dependent on the natural resource base for a large part of its livelihood needs. Today, the forested and common lands, which constitute 72% of the total land area, are excessively degraded. Only 13% of the land under cultivation has some form of irrigation.

Review of Literature:
Rajasthan is relatively a new entrant into micro finance, though organizations like Sewa Mandir, an NGO operating in Udaipur had set up Self-Help Groups two decades ago for community mobilization. Women and Child Development Department of Rajasthan has been promoting SHGs since 1997-98 in all the 32 districts of the State. Till January 2011, there existed 213295 women’s Self-Help Groups helping 11 lakh women.

Financial Status of Rural Poor: A Study in Udaipur District M S Sriram Smita Parhi Aravali, again a NGO the Study of the SHGs in Rajsamand, Bikaner, and and Churu and Bharatpur Districts (undated) .This study looks at SHGs in Rajsamand, Bikaner, Churu and Bharatpur Districts of Rajasthan. The study deals with SHGs formed by ICDS, NGOs, and other government departments, PRIs, SGSY. The study finds ICDS groups to be haphazardly formed to fulfill the targets. The SHGs formed under SGSY, DPIP etc. are mainly activity groups. The saving structure and inter-loaning structure in such groups are weak.

is a feasibility study for initiating income-generating activities with women SHGs of Sewa Mandir, Udaipur. It has studied the projects at five sites. It identifies possible sources of finance and type of activities SHGs can undertake. It also suggests the financial gains from undertaking the activities. It uses alternative cost benefit scenarios to arrive at type of activities a SHG can venture into. The most important activity identified is dairying. The other activities are bamboo-based items.

**Basix, Equity for Equity**
Basix undertook a study funded by IFAD to look into evolution of the MFI and its mission statement, legal status, ownership, governance and organization structure, areas of operations, size and growth over a period, social technology, products for savings, credit and other financial services, analysis of operating cost structure, overall budget, sources of funding, human resources (managers and staff), accounting policies including provisioning norms etc., system and procedures. The study looked at MFIs in Rajasthan, UP, Bihar, Orissa, AP and Tamil Nadu. The study observes that most of the MFIs are undercapitalized that is mainly due to their legal form- most are Societies/ Trusts, which do not have any concept of equity. This restricts these MFIs' ability to seek adequate debt in the long run. Moreover, there is no cushion to absorb loan losses, though some have built reserve funds at various levels. Though the apex financial institutions are aware of this problem, till recently they have not done much about it. In fact most lending schemes to MFIs, such as by the RMK and FWWB, are structured to suit only NGOs registered as Societies/Trusts. The SFMC may address this problem by insisting that larger MFIs must move to an appropriate legal structures, such as cooperative societies or companies, which must be well capitalised. The overall asset quality of the MFIs in the study seemed well given the country's. Gaurav Ranjan Sinha, Different Aspects Related to Self Help Groups and Need Assessment of the Members: A Study of Jhadol Block, Udaipur during Audit of Self- Help Groups, 2003. This study after reviewing the SHGs of Sewa Mandir in Jhadol block argues that the various aspects involved in the SHGs reflects that problems and development are sailing in the same boat. But if the problems are analyzed deeply, the result is different. The development through the teamwork has brought significant changes in the living standards of the people. Increase in self-confidence can be seen when the women speak out to the authorities. But the other side could also be observed during the interviews and discussions with the group members when they do purdah/ghoonghat in front of the outsiders.

**Research Methodology**
Type of Research: Conceptual Research
Secondary data will be collected from NGO’s, SHG’s and Government Organizations and other Financial Institutions as they publish statistical data in the form of handbooks on yearly basis, Experts, Periodicals, Journals, Research Publications, Internet etc.

**The Sample Profile**
During the sample design process the target population is identified, as well as the sampling frame, sampling technique, and the size of the sample.
Sample Element:
Micro finance institutions providing Micro Finance services and customers getting Micro Finance Services by Micro Finance Institutions in rural area like Jhadol, Girwa, Kherwada, Dhariawad and Kotra Block in Udaipur.

The Population: All customers getting Micro Finance Services by Micro Finance Institutions in the Udaipur and MFI’s operating in Udaipur.

Outreach of MFI’s in Udaipur:
As we are focusing on Micro finance institutions providing Micro Finance services and customers getting Micro Finance Services by Micro Finance Institutions in rural area like Jhadol, Girwa, Kherwada, Dhariawad and Kotra Block in Udaipur. The table below illustrates some lending models operating in Udaipur district:

<table>
<thead>
<tr>
<th>Lending Models</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associations (SHG’s)</td>
<td>1000</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>6</td>
</tr>
<tr>
<td>Non-Governmental Organizations (NGOs)</td>
<td>7</td>
</tr>
<tr>
<td>For-Profit Banks</td>
<td>18</td>
</tr>
<tr>
<td>Apex Bodies(NABARD,SIDBI)</td>
<td>2</td>
</tr>
<tr>
<td>MFI(BASIX)</td>
<td>1</td>
</tr>
<tr>
<td>Cooperatives and Credit Unions</td>
<td>7</td>
</tr>
</tbody>
</table>

Table 1

<table>
<thead>
<tr>
<th>Name of banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aandhra Bank</td>
</tr>
<tr>
<td>Allahbad bank</td>
</tr>
<tr>
<td>Bank of India</td>
</tr>
<tr>
<td>Bank of baroda</td>
</tr>
<tr>
<td>Canara bank</td>
</tr>
<tr>
<td>Dena Ban</td>
</tr>
<tr>
<td>IDBI</td>
</tr>
<tr>
<td>Indian Overseas</td>
</tr>
<tr>
<td>ORIENTAL Bank of Commerce</td>
</tr>
<tr>
<td>PNB</td>
</tr>
<tr>
<td>SBBJ</td>
</tr>
<tr>
<td>SBI</td>
</tr>
<tr>
<td>UCO</td>
</tr>
<tr>
<td>Union Bnak Of india</td>
</tr>
<tr>
<td>Vijaya Bank</td>
</tr>
<tr>
<td>Central bank of india</td>
</tr>
<tr>
<td>Indus ind bank</td>
</tr>
<tr>
<td>Syndicate bank</td>
</tr>
<tr>
<td>Name of Cooperative banks and credit unions</td>
</tr>
<tr>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Madhav nagrik sahakari</td>
</tr>
<tr>
<td>Rajasamand urban cooperative bank</td>
</tr>
<tr>
<td>Udaipur mahila samriddhi</td>
</tr>
<tr>
<td>Urban cooperative bank</td>
</tr>
<tr>
<td>Udaipur central cooperative bank</td>
</tr>
<tr>
<td>Rajasthan state coopeartive bank</td>
</tr>
<tr>
<td>corporation bank</td>
</tr>
<tr>
<td>Aastha credit cooperative society</td>
</tr>
<tr>
<td>Kamakshi credit cooperative society</td>
</tr>
</tbody>
</table>

**Table2**

Findings:

1) The table 1 mentions associations about 1000 in Udaipur district which is representing total figure of SHG’s operating in Udaipur which are operated by NGO’s, Banks, RRB’s, NABARD and SIDBI.

2) The table 1 again mentions about regional rural banks figure to be 6 where table 2 gives the list of RRB’s operating in the Udaipur.

3) The total no of NGO’s operating in Udaipur is 7 where seva mandir is operating with SHG’s and reaching about 70000 households in Udaipur and rajasamand districts. the sahayata NGO is operating through Joint Liability groups and has bank ties ups with SBI, ICICI, HDFC, mewar anchlik bank. mahan sewa sansthan by 200 shg by saving and giving loans no bank linkage, Hanuman van vikas samiti opearting in mavli, bhindar, girwa with total 262 SHG and have tie up with Mewar anchlik bank Jagaran jan vikas samiti opearting in sarada, girwa through joint liability groups funding through BASIX.

4) Private Banks are operating by giving loans to MFI's

5) BASIX using four channels for operating namely Joint liability group, ROSCAS, Self Help Groups (SHG), Mutually Aided Cooperative Thrift and Societies (MACTS)

6) The private banks are giving micro loan facilities, micro credit and kisan card to the persons applicable for taking micro services.

7) The SHG’s are having savings accounts with private and cooperative banks.
8) NABARD and SIDBI are operating for women empowerment and SHG and bank linkage programmes.

9) The above mentioned data is showing a growth pattern in the region as per the above figures of MFI’s lending models.

10) The loans repayments are very slow so this kind of loans should be given special considerations and special lending rates.

11) As per the data available in NABARD bulletin the SHG’ are maintain savings account with private and cooperative banks so definitely they are going to improve the financial status as well they will empower women’s in the region

Dimensions of study:
The factors which can be used to do the analysis of problems and prospects of MFI’s in Udaipur can belong to following categories:

Problems and Prospects:
1) Internal Environment: The first factors can be study of internal environment of micro finance institutions in Udaipur. Which can be further divided in to study of various internal factors which are enlisted following:
   i) Employees:
      a) Employees are Retaining in the MFI
      b) Employees need Training
      c) Scarcity of Skilled Employees is there
      d) Employees are satisfied with Compensation and incentive system:
   ii) Client Base:
      a) Client Turnover is good
      b) Loan defaults are there
      c) Education level of clients is low
      d) Clients are uneducated for financial services
      e) Clients complain about services
   iii) Infrastructure facilities:
      a) Transportation facilities are there to reach customers
      b) Telecommunication facilities are good
      c) Communication due to geographic location is difficult
   iv) Costs:
      a) High Operational cost
      b) Lack of Access to funding
      c) Loan collection method leads to delayed payment
      d) Fraud is a problem for our business

2) External environment: The next can be study of external environment pertaining to MFI which can include study of various external factors as following:
a) Political: tax policy, labor law, environmental law, trade restrictions, tariffs, and political stability have any effect on micro finance

b) Economical: include economic growth, interest rates, exchange rates and the inflation rate affect the business of micro finance

c) Social: include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety affect the demand of micro finance.

d) Technological: technological changes affect the micro finance.

e) Legal: Does new legal norms and regulatory framework put a constraint of micro finance business

**Dimensions which will identify success of MFI in nurturing rural poor can be following:**
1) Economic Condition:
   a) Increase in Savings
   b) Growth of business
   c) Employment generation

2) Penetration: MFI is successful in achieving objective of financial inclusion

3) Product diversity: whether products are enough to satisfy micro finance needs

4) Awareness: The MFI is able to increase awareness about financial services

5) Satisfaction of customers is there

**Dimensions to identify Satisfaction of clients of Micro finance institutions:**
1) Conditions appealed “Loan conditions “loans term amount and grace period
2) Costs: Interest and transaction cost.
3) Tangibles appearance of MFI’s employees, buildings and equipments.
4) Reliability
5) Responsiveness, dynamism and willingness for helping customer
6) Assurance
7) Empathy: (aggressive loan and collection methods)

**Conclusion:**
The above study the dimensions which will help to identify the emerging issues and prospects of micro finance in Udaipur district where study focused on selected blocks from Udaipur which were find most suitable for the study. The study outlined the presence of various lending models in the Udaipur district and thrown a light on which models basically they are focusing which was found to be mostly focused on SHG’s lending model .the study above is showing growth pattern
of micro finance services in Udaipur but needs proper attention and legal framework and requires more data building. Several issues are emerging in the area of micro finance and needs detailed research. Definitely with the proper legal framework and funding facilities will help to have good prospects of micro finance in Udaipur and needs proper linkage of SHG’s with funding facilities. As definitely the micro finance is the best tool for financial inclusion and showing growth prospects in Udaipur district. Thus with development of effective strategies and with the combined effort of all players in the society such as financers, government, banks, corporations, NGOs, Apex bodies etc, the long term goal of the government to achieve financial inclusion and poverty alleviation would be attained.

Bibliography:


Aravali, The Study of the SHGs in Rajsamand, Bikaner, Churu and Bharatpur Districts (undated).

Aravali, Situational Analysis of SHG-Bank Linkage in Rajasthan, April 2002.


Malika Singh, Rajiv Khandelwal and Snigdha Chakraborty, Collaboration for Improving Institutional Credit for Self- Help Groups of Rural Poor: A Review of NABARD, NGOs, Banks and SHGs linkages in Rajasthan State, August 1997
M.S. Sriram and Radha Kumar, Conditions in Which Micro finance has Emerged in Certain Regions and Consequent Policy Implications, IIM, Ahmedabad, May 2005.

M.S. Sriram and Smita Parhi, Financial Status of Rural Poor: A Study in Udaipur District, IIM, Ahmedabad (undated).

NABARD and GTZ, Towards a Refined and Improved Management Information System for Linkage Banking: Results of the Study on MIS at SHG Level, July 2005 (draft).


