

Overview of Microfinance in India

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Abstract – Micro Finance is an equitable development instrument that offers financial services and small loans to the vulnerable in rural, semi-urban or urban areas to increase their income levels and boost their living standards. The achievement of inclusive growth and the country's overall prosperity relies heavily on the country's eradication of poverty. However, the eradication of poverty is not possible without community and household growth. As we know, job creation, educational growth, women's empowerment and equity and prosperity within communities are the indicators of community progress. Family growth depends primarily on women's earning capacity, financial literacy, skills development, investments, team building, poverty alleviation, development of rural and semi-urban entrepreneurs and community building skills. Therefore, microfinance has played an important role in the overall growth of the nation over the last few decades.

Key Words – Microfinance, Financial, Instrument, Women, Poverty

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1. INTRODUCTION

Micro Finance is an equitable development instrument that offers financial services and small loans to the vulnerable in rural, semi-urban or urban areas to increase their income levels and boost their living standards. India's emerging problems and challenges need a pragmatic framework to empower microfinance arrangements that, in turn, promote essential business processes, capacity building, education, health and hygiene, etc. The achievement of inclusive growth and the country's overall prosperity relies heavily on the country's eradication of poverty. However, the eradication of poverty is not possible without community and household growth. As we know, job creation, educational growth, women's empowerment and equity and prosperity within communities are the indicators of community progress. Family growth depends primarily on women's earning capacity, financial literacy, skills development, investments, team building, poverty alleviation, development of rural and semi-urban entrepreneurs and community building skills. Therefore, microfinance has played an important role in the overall growth of the nation over the last few decades. In brief, the fact that microfinance is the biggest accomplishment of economic development and the best method for poverty eradication is misleading. Although the microfinance industry has seen phenomenal growth over the last few years and the government has made the amount of credit available to the poor and financially poorer member

of society, expenditure has also risen to Rs. 30000 crores, as of March 2014, a number of customers benefited from more than 30 million (Sa-Dhan,2014). It has been seen, however, that the UN Millennium Development Goals would not meet anticipated outcomes in the global battle against hunger and poverty because microfinance organisations are charging a high interest rate to meet their high operational labour costs. The definition of microfinance is introduced in this analysis and its roots in India is traced. It also explores how the new structures did not really support the cause of the financial distress that contributed to the birth of microfinance institutions. It reflects briefly on the different types of business models that exist in India and on the current state of microfinance in India.

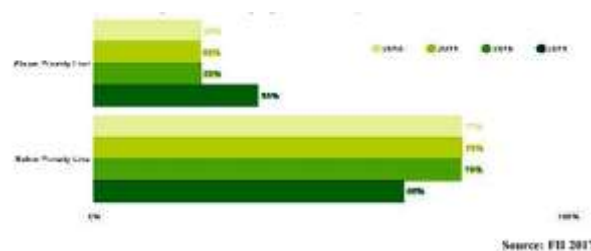


Figure 1: Demographics, Poverty Index of India

With respect to India's overall declining poverty rates and the comparatively limited (micro) scale of micro-credit, the data suggest a sharp decrease in

the percentage of poverty in 2016. The World Bank Index Survey (2012) states that in the last twelve months, only 35% of Indian adults had access to a formal bank account and 8% borrowed from a formal financial institution. Between 2014 and 2015, the level of financial inclusion among Indian adults increased by 20 percent (FII, 2015). Economic growth in the twenty most important microfinance markets in 2015 will, according to the IMF, double the pace of developed economies (Etzensperger, 2015).

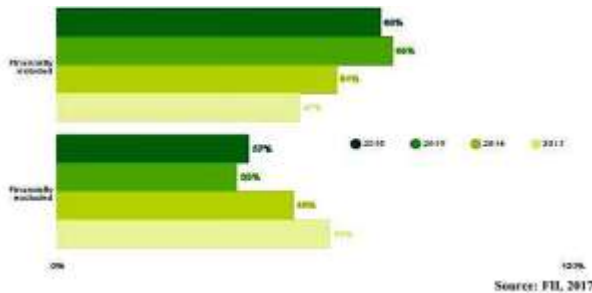


Fig. 2 Financial Inclusion in India

This is an elementary method for impact evaluation that provides a good understanding of the solution to poverty alleviation. Nevertheless, it is an appraisal of the category APL (above poverty line) and BPL (below poverty line) or the study to recognise being "very poor" or "moderately poor," which we can often regard as an alternative to poverty alleviation. This is a general assumption that illustrates how

An MFI performs well in selecting poor borrowers based on those deemed poor by either national living standards or the rough calculation of the size of the loan as used by other MFIs. Any MFIs have used limited loan sizes such as BASIX as a rough approximation of whether their borrowers are likely to be 'bad'. The difficulty here would be to locate similar details, as MFIs prefer to use multiple methods to measure social impact in different ways.

The average outstanding loan size or loan portfolio per microfinance client analyses the average outstanding loan balance and is commonly used as a rough measure of the depth of outreach to lower-income clients. While smaller loan amounts lead to a variety of reasons other than the client's income level, there is a link between this ratio and the average level of income of the areas covered. Therefore, tracking this ratio in terms of GNI per capita and cost per consumer may be beneficial.

2. ISSUES OF INDIAN MICROFINANCE SYSTEM

Regional Rural Banks (RRBs): In 1975, the Government of India developed Regional Rural Banks to expand structured credit networks to rural communities for the purpose of financial inclusion. The birth of RRBs showed a new age for Indian

banking and their position was visualized in the overall growth of the rural economy, consisting of the poor, the poor, the unemployed and the illiterate. As set out in the preamble of the RRB Act 1976, the aim of the establishment of the RRB is to provide adequate incentives for rural areas by providing adequate and timely micro-loans. Hence, the primary prospect was to close the divide between the backward class and society's upper class. Rural micro-credit and its revival remain a problem for the banking sector in India. Since RRBs have only been developed in the rural sector, the default syndrome seriously affects their working. Strong cumulative losses for RRBs have been created by the higher amount of NPA (Non- Performing Assets) coupled with high operating expenses. In particular, scepticism of the viability of RRBs has been posed during the age of liberalisation. As the public money sponsor, by the production of more money, they have to extend the current wealth, side-by-side reaching the specified goals covered by the act. The collapse of these banks, however, has placed a question mark on their operations. The primary cause for this financial loss is believed to be that the RRBs have never been able to bill for their services at rates that compensate them for running costs and, in particular, for default costs.

Cooperatives: Initially, rural credit cooperatives in India are visualized as an instrument for taking small-scale wealth to citizens and providing them with financial access for various financial purposes. Rural credit cooperatives have been set up in India to establish a network of cooperatives and to support the needy in urban and rural areas. However, the establishment of the Rural Credit Survey Committee has been the key advancement in the cooperative sector since Independence. The Cooperative Credit Societies do not cover all farmers' credit requirements. They offer loans for farm activities only. The money-lenders are contacted by farmers to satisfy their other specifications. The emergence of the cooperative movement stands in the way of this fragmented devotion to the cooperative community and the money-lender. As the owned funds hardly make a big working capital pool, the cooperatives have resource constraints. The borrowings of cooperatives from the central finance agency are greatly conditioned on the poor held fund base. This has kept the credit standards of both current and new members from being sufficiently met.

3. EMERGING DEVELOPMENT IN MICROFINANCE

Low viability and lack of physical protection in most cases deter financial agencies from concentrating on economically disadvantaged groups in rural and semi-urban areas, owing to the high risks of fund shortfall and costs involved in

financial transactions. MFIs have arisen to serve this region and to offer financial services to low-income customers, although their position in the Indian financial sector has changed dramatically since they started operating. Yet recent credit strategies have been developed by microfinance agencies; instead of requiring collateral, they minimised risk by community guarantees model, consumer evaluations by offering micro initial loans for customer checking. Nevertheless, with RBI awareness and how they collect and lend funding, microfinance organisations have moved from non-governmental organisations (NGOs) to non-banking finance companies (NBFCs). (NBFCs-MFIs) are now collecting funds not only from banks and finance institutions, but also through equity capital issuance. A variety of measures have been initiated by the government to strengthen the financial requirements for lower-income households. Such as the launch of new programmes, i.e. Jan DhanYojana Pradhan Mantri (PMJDY)

On 28 August 2014, it was launched to supply every individual with a bank account and Under this scheme, 221.8 million accounts (with a total balance of INR391,53 billion) were opened as of 22 June 2016 for basic insurance cover. Micro Units Production & Refinance Agency Limited (MUDRA) and Pradhan Mantri MUDRA were introduced by the ministry.

In 2015, Yojana (PMMY) led and tracked banks on how to lend to micro finance agencies with a cumulative goal of 1,22,188 crore INR credit disbursements. In August 2015, the RBI issued licences to 11 payment banks and in September 2015 to 10 small finance banks. During the year 2016–17, these specialist banks are scheduled to become operational. In terms of exposure to formal finance networks, these banks can provide a further boost and, in turn, lead to inclusive growth. The cabinet also approved the establishment of a loan guarantee fund for MUDRA loans, which is intended to provide microfinance agencies with a guarantee for loans worth over 1,00,000 crore Indian rupees. These recent developments in the banking and financial sector have transformed banking from redundant brick-and-mortar infrastructure such as run branches to a mechanism complemented by less cash outlets such as credit/debit cards, internet banking, paytm, instant money transfers, etc. However, it is arguable that only few parts of society have restricted access to these emerging technology (PWC, 2016).

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