A STUDY OF CHALLENGES OF MICROFINANCE IN INDIA

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ABSTRACT

Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. It is emerging as a powerful tool for poverty alleviation in India. In India, the history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank concentrated on raising micro deposits in the form of daily/weekly basis and sanctioned micro loans to its clients for shorter period of time. But microfinance came to limelight only when Dr Yunus gave it a mass movement in Grameen Bank experiment. Micro Finance may be defined as "provision of thrift, the wide network of the organized banking system deep credit and other financial services and products of very into rural areas. Market and the government both failed to small amounts to the poor in rural, semi urban or urban provide credit access to the poor. In this research paper, I have discussed about the challenges faced by microfinance in India.

Keywords: Microfinance; Microfinance Institutions; Goals and Objectives; Models and Challenges

INTRODUCTION

‘Microfinance refers to small scale financial services or monetary services for both credits and deposits- that are provided to many people who farm or fish or herd; operate small enterprise or micro enterprise where goods are produced or manufactured, recycled, repaired, or traded; provide services; work for wages or commissions; gain income or revenue from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas’ - Marguerite S. Robinson.

Micro Finance defined as "provision of thrift, the wide or biggest network of the organized banking system in the country to deep credit and other financial services and products of very into rural areas. Market and the government both failed or not successful to small amounts to the poor in rural, semi urban areas or urban areas provide credit access to the poor people. In fact the failure of areas, for enabling them to increase their income levels and institutional initiatives of rural credit and to the improve living standards". At present, a large part of weaknesses of the exploitative informal system of credit micro finance activity is confined to credit only. Women gave birth to Microfinance institutions. No doubt, constitute a vast majority of users of micro-credit and microfinance has been successful in providing credit savings services.

In India, the overall history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank concentrated on raising micro deposits in the form of daily or weekly basis and sanctioned micro loans to its clients for shorter period of time. But microfinance came to limelight only when Dr Yunus gave it a mass movement in Grameen Bank experiment.

Microfinance can be identified a different approach to provide saving and investment facility to the poor people around the world. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor people to smooth then their consumption,
adjusting their risks better, gradually build their asset or property base, develop their business, increase their income earning capacity, and enjoy an improved quality of life. In India, microfinance mainly operates or handle through Self Help Group (SHGs), Non-Government Organizations (NGOs), and Credit Agencies. It provides poor people with the means to find their own way out of poverty.

**BRIEF HISTORY**

In the decade leading up to 2009, the Non-Bank Finance Company-Micro Finance Institution (NBFC-MFI) model proved itself to be a viable and sustainable means of providing access to finance and meet the financial requirements of the bottom of the pyramid population. As a dedicated credit delivery channel for vast un-banked/under-banked segments, NBFC-MFIs have been playing a significant role in taking forward the Financial Inclusion agenda of the Government of India. What sets NBFC-MFIs apart is the fact that they do not depend on grants or subsidies to provide unsecured loans people with low incomes and no access to the banking system. Instead, they have used market oriented solutions that encourage self-reliance and entrepreneurship amongst its clients.

By 2009, NBFC-MFIs were contributing to a significant proportion of the aggregate Microfinance activity in India. In FY2009-10, this class of institutions had, at a pan-India level, succeeded in reaching out to over 23 million low income clients with total lending in excess of Rs 1800 Crores. As the NBFC-MFI industry grew, so did its need for transparency and better governance. It was against this backdrop that the industry felt the need for an organization that would establish a framework for fair practices and client protection for NBFC-MFIs and promote the development of a robust Microfinance industry in India.

MFIN was established in October 2009 as a Society under the Andhra Pradesh Societies Registration Act 2001. As per MFIN Bye-Laws, all NBFCs registered with the RBI as NBFC-MFIs are eligible for membership of the Society. MFIN is to a large extent member funded. Its Governing Board comprises of Members elected from amongst the leadership of member MFIs. One third of the Board comprises independent Members.

**Top 25 Microfinance Companies in India**

As per the report the top 25 Microfinance Companies in India are as follows (Alphabetical Order)

1. Annapurna Microfinance Pvt. Ltd.
2. Arohan Financial Services Pvt. Ltd.
3. Asirvad Microfinance Pvt. Ltd.
4. Bandhan Financial Services Pvt. Ltd.
5. BSS Microfinance Pvt. Ltd.
6. Cashpor Micro Credit
7. Disha Microfin Pvt. Ltd.
8. Equitas Microfinance Pvt. Ltd.
9. ESAF Microfinance and Investments Pvt. Ltd.
10. Fusion Microfinance Pvt. Ltd.
11. GramaVidiyal Micro Finance Ltd.
14. Madura Micro Finance Ltd.
15. RG VN (North East) Microfinance Limited
16. Satin Creditcare Network Ltd.
17. Shree Kshetra Dharmasthala Rural Development Project
18. SKS Microfinance Ltd.
19. S.M.I.L.E Microfinance Ltd.
20. Sonata Finance Pvt. Ltd.
Definition of Microfinance

Definition of Microfinance Institutions the proposed Microfinance Services Regulation Bill of India defines microfinance services as

1. Providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for: i. 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)

2. An amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing purposes,

3. Such other amounts, for any of the purposes mentioned at items (i) and (ii) above or other purposes, as may be prescribed.”

REVIEW OF LITERATURE

Sheokand (2000) discussed the evolution of Indian banking and its failure to provide credit facilities to poor people. NABARD started Self Help Group – Bank Linkage Programme in 1992, which was considered as a landmark development in banking with the poor.

Gurumoorthy (2000) explained the Self Help Group (SHG) as a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programmes. It was an organised set up to provide micro-credit to the rural women on the strength of the group savings without insisting on any collateral security for the purpose of encouraging them to enter into entrepreneurial activities and for making them enterprising women.

NABARD (1989) conducted, “Studies on Self-Help Groups of the Rural Poor”, to understand the background of the emergence of selfhelp groups, their composition, methods of working and their linkages with the financial institutions, and to examine possibilities for development of linkages between the self-help groups, self help promotion institutions and the financial institutions for providing support to the self-help initiatives of rural development.

Karmakar (1999), pointed about the various problems of rural credit delivery system in India. The major problem according to him is the repayment and recovery of the loans at the borrowers level and the consequent weakening of the entire institutional credit system. He pointed out that the causes on the internal front were defective loan policies and procedures, inadequate supervision and monitoring and unprofessional management. On the external front, the problems were occurrence of natural floods and droughts, absence of backward and forward linkages, defective legal frame work, and lack of support from the government machinery in recoveries. Because of all this, he summarised that instead of mobilizing resources for rural development, the programme for rural development has actually been consuming scarce monetary resources and has not worked out to the advantage of the rural borrowers, the bank and the government.

Puhazhendhi and Satyasai (2000) carried out the impact study for NABARD on SHG-bank linkage programme in 2000. This study was carried out to evaluate the social and economic impact of SHG-Bank Linkage Programme on SHG members. The study was conducted for the country as a whole, covering socio-economic changes in the conditions of 560 SHG member households from 223 SHGs located in 11 states.
Key Principles Of Micro Finance

1. Poor people require a variety or different of financial services, not just loans.
2. Microfinance is a strong tool to fight poverty.
3. Microfinance means building financial systems that serve the poor or help them.
4. Microfinance can pays for itself, and must do so if it is to reach very large numbers of poor people.
5. Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services.
6. Microcredit is not always the answer. Other kind of support may work.
7. Interest rate ceilings hurt people by making it harder for them to get 101
8. The job of government is to enable financial services, not to provide them directly.
9. Donor funds should complement private capital, not compete with it.
10. The key bottleneck is the shortage of strong institutions and managers.
11. Microfinance works best when it measures and discloses its performance.

Objectives of Microfinance

The organizations working to promote microfinance institutions in different parts of the world determine various objectives to microfinance. The important among them are listed as follows.

1. Promote socio-economic development at the grass root level through community-based approach
2. Develop and strengthen people’s groups called Self-Help Groups and facilitate sustainable development through them
3. Provide livelihood training to disadvantaged population.
4. Promote activities which have community participation and sharing of responsibilities
5. Promote programs for the disabled
6. Empower and mainstream women
7. Promote sustainable agriculture and ecologically sound management of natural resources
8. Organize and coordinate networking of grass root level organization
9. Get benefits by reducing expenditure and making use of local resources as inputs for livelihood activities
10. Increase the number of wage days and income at household level

History of Microfinance

- Modern types of microfinance were started its development since later half of 20th century especially after 1970.
- SHG (Self Help Group)-Bank Linkage Channel (SBLC) is the first one, which was developed early 1990s by NABARD.
- The second channel is Micro Finance Institution (MFI). The MFI in India was first introduced in 1974, but the momentum was achieved only during the 1990s.
OBJECTIVE OF THE STUDY

The present study has been conducted to know the following related to microfinance in India:

1. To study the present scenario of microfinance in India.
2. To identify the challenges faced by Microfinance Institutions in India.

RESEARCH METHODOLOGY

This research paper is fully based on secondary information and past study which researcher has explained through literature review. The primary objective of this research paper is to understand the problems and current scenario of microfinance in India. The data has been collected through different sources like, library, newspaper, magazine and many others.

Micro Finance Models in India

They can be categorized into six broad types.

1) Grameen model
2) SHG model
3) Federated SHG model
4) Cooperative Model
5) ROSCA s
6) Micro-finance companies (MFCs)

Grameen Model- Grameen Model was originated by DR Mohammed Yunus of Grameen Bank of Bangladesh. It is most popular and widely practiced model in all around the world. In Gramin model, generally groups are consisting of five borrowers. The groups of five members are meet together weekly. In this model, the loans are provided to the individual and all groups are equally responsible.

SHG Model- The Self Help Groups (SHGs) has prevailing microfinance in India. In this model, the current members of SHG increase their small savings regularly at a hypothesized amount on daily or weekly basis. SHGs are really designful and formal association. It consists by 15 to 20 people with some objectives. NABARD is extensively supported to SHGs rather than via bulk loan.

Federated SHG Model- The Federated model is one such a way to boost up the previous model. Federated of SHGs bring together several SHGs. Compared to a single SHG, federation of SHGs have more than 1000 members.

Cooperative Model- Cooperative credit unions are another significant microfinance model developed in the all over the country. The prominent organization that has been successful in using the cooperative form in rural microfinance in India has been the Cooperative Development Forum (CDF), Hyderabad.

ROSCAs- ROSCAs are an alternative means of providing credit to groups of individuals. Individuals join groups at centered around shared features such as community, ethnicity, or professions and make periodic donations in order to receive loans in the future. Each member are systematically received a loan and repaid it in time for the next member to begin the loan process.

Micro-Finance Companies (MFCs)- Microfinance companies are registered in two regulatory set up; Non-Banking financial Companies (NBFC) under reserve bank of India or companies act. Many microfinance companies are registered in our country as NBFC. NBFCs are collecting savings and
utilizing their funds for loans and other activities. The micro finance institutions including BASIX, Asmitha, SKS and Janasree microfinance Kerala is registered as NBFC.

The Goal for MFIs Should Be

1. To improve the quality of life of the poor by providing access to financial and support services.
2. To be a viable financial institution developing sustainable communities.
3. To mobilize resources in order to provide financial and support services to the poor, particularly women, for viable productive income generation enterprises enabling them to reduce their poverty.
4. Learn and evaluate what helps people to move out of poverty faster.
5. To create opportunities for self-employment for the underprivileged.
6. To train rural poor in simple skills and enable them to utilize the available resources and contribute to employment and income generation in rural areas.

Challenges of Microfinance

Regional Imbalance in Microfinance in India- Microfinance institutions in India (mostly microcredit) is heavily concentrated in small pockets or region. It results in glaring regional imbalance in people’s access to microfinance products - credit, saving, remittances and insurance. Regions and states which have some of the highest incidents of poverty and lack of banking infrastructure ironically have one of the lowest MFI penetrations.

Inability of The Microfinance to Reach the Poorest of the Poor- Numerous empirical studies point out that microfinance has done commendable job in certain region and countries to alleviate rural poverty, give income generation options to women, provide better access to food, sanitation, education and even land. The really poor and vulnerable do not meet the prerequisites for the MFI benefits like microcredit. Such people are not able to organize themselves into SHG and in absence of the SHGs such individuals remain outside the MFI reach. The really poor need credit overwhelmingly for consumption and not for income generating activities.

High Cost of Microfinance Funds- While exact number varies from MFI to MFI, mostly the interest rate for loans borrowed from MFI channel in India is between 25% to 35%, this is substantially higher than the cost of funds available from commercial banks which is between 12% and 18%. The cost of borrowing from MFI channel at times may be as high as the much despised traditionally money lenders in India.

Sustainability: The first challenge relates to sustainability. It has been reported in literature that the MFI model is comparatively costlier in terms of delivery of financial services. An analysis of 36 leading MFIs by Jindal & Sharma shows that 89% MFIs sample were subsidy dependent and only 9 were able to cover more than 80% of their costs.

Other Challenges of Microfinance

- High interest rate and high transaction cost.
- Barriers for conventional banking.
- Inadequate investment in Agriculture and Rural development.
- Low level of technical understanding of banking and finance.
- No innovative mix of products by microfinance institutions.
Micro Finance Model

The four most important Micro Finance models prevalent in India are:

Model I - individuals or group borrowers are financed directly by banks without the intervention/facilitation of any Non-Government Organisation (NGO).

Model II - borrowers are financed directly with the facilitation extended by formal or informal agencies like Government, Commercial Banks and Micro-Finance Institutions (MFIs) like NGOs, Non Bank Financial Intermediaries and Co-operative Societies;

Model III - financing takes place through NGOs and MFIs as facilitators and financing agencies;

Model IV - is the Grameen Bank Model, similar to the model followed in Bangladesh.

CONCLUSION

Microfinance should provide better financial services to small and micro enterprise. They should also provide the smooth services to agricultural sectors so farmers can improve their productivity. Micro insurance sector in India are to focus on the supply side factors like costs of market development and growth, high competition, good incentives to insurers and intermediaries such as MFIs. There are many key areas for policy interventions for functioning of microfinance or insurance markets like customized products, expanding access to credit markets are some key areas.

MFIs should offer sustainable financial services to the clients in India and reach a stage of high access and high sustainability, which is the desired level. There is emerging price competition from mainstream banks as they are able to cross-subsidize their micro-credit operations and charge interest rates below cost. The Indian microfinance sector has grown by leaps and bounds during the first decade of the twenty first century. A lot of changes have been seen during the last ten years on how the microfinance institutions function.

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