EVOLUTION OF MICRO FINANCE IN INDIA – ASTUDY

BOLLIPELLI KRISHNAVENI
Department of Economics
Osmania Hyderabad

Abstract:

Microfinance emerged as a noble substitute for informal credit and an effective and Powerful instrument for poverty reduction among people, who are economically active, but financially constrained and vulnerable in various countries. Microfinance covers a broad range of financial services including loans, deposits and payment services and insurance to the poor and low-income households and their micro enterprises. Microfinance institutions have shown a significant contribution towards the poor in rural, semi urban or urban areas for enabling them to raise their income level and living standards in various countries.

***Keywords**: Microfinance, Services, Institutions.*

Introduction:

Microfinance is not a new concept. It dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. Over the past two decades, various development approaches have been devised by policymakers, international development agencies, non-governmental organizations, and others aimed at poverty reduction in developing countries. *Microfinance*, also known as microcredit, is a *financial* service that offers loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional sources of capital, like banks or investors.

Microfinance: What It Is and Why It Matters

Unemployed or low-income individuals should not be deprived of the opportunity to start their own business. Sometimes, all that's needed is a little financial help. However, these individuals likely don't qualify for a standard bank loan.

Instead, they can turn to microloans and lenders. Microfinancing is an option for impoverished dreamers looking to create a brand and get ahead.

"The end goal of microfinance is to have its users to outgrow these smaller loans and become ready for a traditional bank loan," said Yuliya Tarsava, co-founder and COO of CNote.

In honor of Financial Literacy Month, we outlined everything you need to know about this lending option.

What is microfinance?

Microfinance, also known as microcredit, is a financial service that offers loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional sources of capital, like banks or investors. The goal of microfinancing is to provide individuals with money to invest in themselves or their business.

"Microfinance focuses on meeting the financial needs of populations that are financially underserved," said Tarsava. "These are individuals who usually lack the credit or resources to secure a loan and are unlikely to get approval from traditional banks. Typically, these consumers are seeking small-denomination loans … to finance the purchase of a specific equipment, or the capital to start a small business."

History of microfinance

While the concept has been used globally for centuries, Bangladesh's Muhammad Yunus is the pioneer of the modern version of microfinance, according to Kiva, a crowdfunding-based micro lending organization inspired by Yunus' work. While working at Chittagong University in the 1970s, Yunus began offering small loans to destitute basket weavers. Yunus carried on this mission for nearly a decade before forming the Grameen Bank in 1983 to reach a much wider audience.

Joseph Blatchford, former head of the Peace Corps and a UC Berkeley law student, is also credited with building up modern-day micro financing efforts. Blatchford founded nonprofit Accion as a volunteer project in 1961, and in 1973, the organization began offering small loans to entrepreneurs in Brazil to see if a one-time influx of money could help lift them out of poverty. The operation was a success: 885 loans helped create or stabilize 1,386 new jobs. Accion expanded the model to 14 other Latin American countries over the next decade.

Microfinancing institutions

Microfinance is available through microfinance institutions, which range from small nonprofit organizations to larger banks. These institutions include for-profit companies, like General Electric Consumer Finance and Citi Microfinance, as well as nonprofit organizations, such as Kiva, Accion and BRAC. They offer small loans and help set up and maintain a savings account, and they assist borrowers in obtaining insurance for a variety of needs, such as death, illness or loss of property.

"Although microfinance is often discussed in the international context, there are several lending institutions in America, that make these types of loans to increase economic opportunity in local communities," said Tarsava. "Many CDFIs (Community Development Financial Institutions) offer microloans to the communities they serve … [with] favorable small-business terms, … and they provide consulting resources and financial education to help increase the likelihood of borrower success."

The downsides of microfinance

According to the data from the World Bank, "the microfinance industry is estimated at $60 to 100 billion, with 200 million clients." However, there is much criticism about the concept.

Microloans are smaller than traditional bank loans, but they have much higher interest rates. Many believe the loans are not enough to start a successful business and only provide basic needs, like food and shelter, which eventually lead to more debt.

"As with any credit, a microloan should be used wisely," said Tarsava. "Without a business plan and proper financial education, even a microloan can lead to unsustainable levels of debt. This is especially true for consumers who already lack credit or have challenging financial situations."

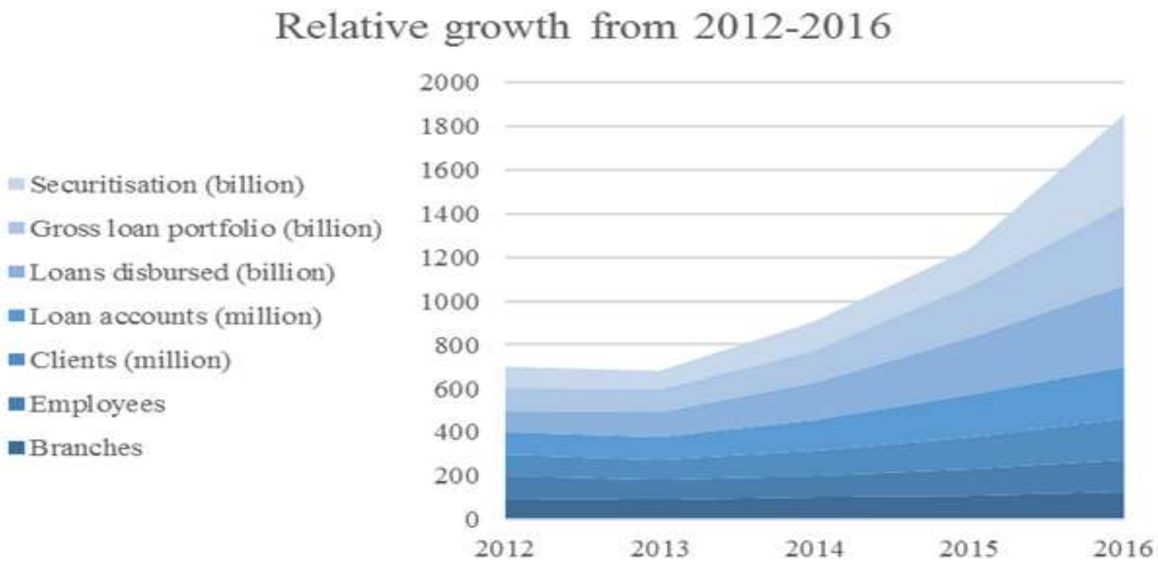
However, there are many ways to ensure timely repayment on the loans. According to Investopedia, many microlenders allow borrowers to work together to repay their loans, helping each other when needed. This holds borrowers more accountable for their repayments, which in turn leads to better credit and sets them off on the right foot.

Growth of debt is concentrated in a few client segments

There is a consensus based on interviews conducted for the report that the growth of microfinance is aggressive, putting strain on the credit officers. The data on regulated microfinance institutions (MFIs) that submitted their numbers to the Microfinance Institutions Network indicates that over the past year, loan portfolios grew by 84 percent and loan disbursements grew 45 percent. In comparison, consider these numbers:

- 22 percent growth in branches
- 38 percent growth in staff strength
- 44 percent growth in number of clients
- 45 percent growth in number of loans

Together, these numbers indicate that the loan portfolio grew at a substantially higher rate than branches, employees or clients. This means more debt within the same client segments, leading to overleveraging, which could end up in a large-scale default.



Source: Inclusive Finance India Report 2016

Conclusion:

The significance of the present investigation, it is vital to specify this zone of study is vital for the advancement of financial exercises in creating nations like India and its commitment to the improvement of smaller scale and little ventures. The investigation of this nature is basic to recognize the part of MFIs items and administrations in little and microenterprises segment. This will upgrade to indentify MFI s and their commitment to the rustic populace in getting to monetary administrations in their areas to support their expectations for everyday comforts in a feasible way.

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