



## Present Scenario of Microfinance in India

Sonia Goyal

Assistant Professor, Department of Commerce, SD College, Barnala, Punjab, India

### Abstract

From the very last few decades poor people and socially marginalized people have less access to the high quality financial products and services. It does not include only banking services. The very important step to bring economically exiled people within the crease of financial sector was the development of microfinance in India. This is in early 1980's had been evolved with an effort of forming informal Small Help Group (SHG). The main purpose of SHG is to provide easy access of all kind of financial services to needy. The term microfinance mainly refers to both credit and savings, small scale financial services that are extended to poor in all kind of areas. The SHG-MFIs and bank linkage is an effective way for needy people to use financial services with ease. This paper tries to highlights the position of micro finance in India.

**Keywords:** Exiled, Financial Services, Marginalized, Microfinance, Small Help Group

### Introduction

Microfinance is not a new term in India. In the ancient times, people used to save their money and take loans to meet the contingencies from other individuals and groups. The main aim behind the same is self –help either to start a new farming venture or any other small business. This provision is mainly meant to support the poor rural people, so that they can pay their debt at time and can raise their standard of living. Microfinance has built a solid record as a critical instrument in the fight against poverty and making availability of financial services to poor sector of the economy. At the beginning, India started to provide the facility of microfinance through it public bank network. With the rapid development of industry and increase in demand Non-Government Organizations (NGOs) and Micro Finance Institutes (MFIs) began transforming themselves into more regulated legal entities such as Non Banking Finance Companies. Furthermore World Bank Group also pays a lot of attention towards the development of Microfinance. International Financial Corporation is the World Bank group's lead investor in microfinance. The potential for development of MFIs in India is very high. Microfinance also plays an important role in the women empowerment. It is mainly dominated by SHG as an effective way to provide basic financial services to the marginalized sectors of society.

The marginalized section requires this finance to perform economic activities, smoothen consumption, and mitigate vulnerability to income instability, increasing standard of living and self empowerment. In 1969 lead bank scheme was introduced by RBI under the recommendations of Gadgil Study Group. The scheme aims to enhance the flow of bank finance to rural sector. (Source: RBI). In 1992 Self Help Group - Bank Linkage programme (SBLP) was a pilot project by the NABARD. This linkage programme was emerged with mainly three models. As we know NGOs were the major palyers in the development of microfinance in India. Many

NGOs provide the loans based on SHGs and their linkage with commercial banks further enlarged its scope. Government of India is taking a lot of initiatives to achieve greater financial inclusion and growth of India's unorganised but priority most sectors.

### Present Scenario

According, to World Bank there are over 10,000 MFIs serving poor people in developing countries, they only reached 5% of poor of the potential market. In April 2014, the Reserve Bank of India (RBI) granted banking licences to only two non-corporate entities Bandhan and IDFC - after a long gap of 10 years. Before that, the RBI had issued banking licence in 2004, giving birth to Kotak Mahindra Bank and YES Bank. At the time of being granted banking licence, the Kolkata-based Bandhan had been playing a major role in extending micro-finance and catering mainly to the rural financial needs. Whereas, by the time it got banking licence, IDFC had already established itself as a big name in the infrastructure lending sector. However, these two were not big corporate houses.

The micro-finance industry (MFI) is slowly recovering from the effects of demonetisation which had resulted in substantial write-offs by some of the major players in this sector. Bandhan Bank, one of the leading players in this sector which transformed into a universal bank from an MFI, said that there had been problems in collection from the borrowers who had taken loans past demonetisation. (Source: Economics Times, 18<sup>th</sup> Jan, 2018)

In order to facilitate a broader understanding of emerging global trends in microfinance especially in the context of rapid use of technology to spur products and business model innovation, The Global Symposium on Microfinance, with the theme "Revolutionizing Microfinance: Insight, Innovation and Inclusion was held at Malaysia (Source: The Global Symposium on Microfinance May 22-23, 2017Kuala Lumpur, Malaysia). It was an opportunity to bring together regulators,

for policymakers, financial services providers, mobile network operators and community-based institutions to develop a shared vision of how to harness emerging innovations to meet the needs of the micro and small enterprises, and provide a broad range and affordable financial products and services. It's also an opportunity to create a network of microfinance experts who can share their insights and experiences so they apply the very latest and most effective approaches in improving financial tools and systems for the most marginalized segments of businesses.

The number of savings linked SHGs has shown a huge jump of 8.53% during the year. The increase is highest during this decade. With the expanding coverage of SHG-Bank Linkage

Programme in Eastern and North Eastern Regions and other priority States during the last three years, there has been perceptible correction in the Southern bias of the Programme. Bihar, Maharashtra, Rajasthan and West Bengal account for 63% of the net addition of SHGs during the year. The share of Southern Region in terms of number of SHGs declined to 43.4% in 2016-17 from almost half (48.3%) in 2014-15. There was a slight decline in the percentage share of SHGs in Southern Region as well as Central Region during 2016-17 over the previous year in spite of an absolute rise in number of SHGs. Major States like Telangana, Maharashtra, Gujarat, Chhattisgarh, Uttarakhand, West Bengal, Bihar, Jharkhand, and Rajasthan have recorded higher growth rate.

**Table 1**

Year	No. of SHGs with savings Linkage	Amount of savings outstanding	No. of SHGs disbursed with loan	Amt. of loan disbursed	No. of SHGs with loan outstanding	Amt. of loan outstanding
2014-15	76.97	11.06	16.26	27.58	44.68	51.55
2015-16	79.03	13.69	18.32	37.29	46.73	57.12
2016-17	85.77	16.11	18.98	38.78	48.48	61.58

(Source: Report by NABARD on Status of Microfinance in India 2016-17, Pg no. 19)

### Microfinance and women Empowerment

Microfinance provides an opportunity to low income people to become self-sufficient. This is done by providing the means of saving money, Insurance and borrowing money. Women make up a larger percentage of beneficiaries from the microfinance. It provides women a financial support. Women are economically and socially empowered after joining SHG and getting microfinance. It has been well documented that an increase in women resources results in well being of the family, especially children (Mayoux 1997, Kabeer 2001). Microfinance facilitates million of women to participate into commercial economic activities from which they were barred previously. IFAD (International Fund for Agriculture Development) argues that women involved into microfinance gain a level of power that allows them to make their decisions independently and to raise their status. Sashakt Mahila, Sashakt Bharat that is the ideology with which the govt. of India works towards the upliftment of rural women in the country. (Source: The Indian Express, 15<sup>th</sup> oct., 2017)

### Conclusion

We can conclude from the above study that microfinance is playing a vital role in economic, psychological and social development of India. The SHGs in rural areas are performing very well. Microfinance creates the confidence, skill and courage in the marginalized section of society. It leads them to participate in all type of welfare activities with good cooperation. The wholesale privatisation of social welfare institutions and increase in the cost of living puts a lot of pressure on the poor. In these situations microfinance provides a great deal of relief. MFIs can be treated as key element in the sustained and long term economic development in all over the world. Microfinance based on charity with low rate of interest and ease in availability offers much greater relief.

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