



MICROFINANCE SYSTEM IN INDIA

Economics

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ABSTRACT

Microfinance is a banking service provided to low-income individuals or groups who otherwise would have no other access to financial services. Microfinance allows people to take on reasonable small business loans safely, in a manner that is consistent with ethical lending practices. Microfinance Industry Network (MFIN) was established in 2009 as an Association for NBFC-MFIs. In 2014, MFIN was recognised by the Reserve Bank of India (RBI) as India's first Self-Regulatory Organization (SRO) for the NBFC-MFIs. The year 2019 saw MFIN complete ten years of its existence as an Association. Over a period of time, as members graduated as Universal Bank and Small Finance Bank coupled with entry of banks and NBFCs in microfinance space, MFIN has expanded its umbrella to cover the entire microfinance eco system. MFIN Members are RBI regulated entities comprising the Non-Banking Financial Companies - Microfinance Institutions (NBFC-MFI), Banks, Small Finance Banks, NBFCs, Banking Correspondents, Credit Bureau, Fintech companies, among several others. Keeping the larger objective of financial inclusion in mind, MFIN focuses on creating an enabling policy and business environment for its members to purvey responsible finance with the highest standards of customer protection and corporate governance. Towards this objective, MFIN works closely with the microfinance providers, regulators, Government and other key stakeholders across 35 states and union territories, spanning 729 districts to ensure that credit reaches the low-income households.

KEYWORDS

INTRODUCTION

The impact of Microfinance on borrowers can be gauged by the fact that over 7 crore women are at present being reached through these small, easily serviceable, collateral free loans, impacting as many as 300 million families. As a result, a vast unbanked and unserved population of India today has access to formal credit even in the remotest districts of India. **Microfinance** is a category of financial services targeting individuals and small businesses who lack access to conventional banking and related services. Microfinance includes microcredit, the provision of small loans to poor clients; savings and checking accounts; microinsurance; and payment systems, among other services. Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient. ID Ghana is an example of a microfinance institution.

Microfinance initially had a limited definition: the provision of microloans to poor entrepreneurs and small businesses lacking access to credit. The two main mechanisms for the delivery of financial services to such clients were: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Over time, microfinance has emerged as a larger movement whose object is: "a world in which as everyone, especially the poor and socially marginalized people and households have access to a wide range of affordable, high quality financial products and services, including not just credit but also savings, insurance, payment services, and fund transfers."

Proponents of microfinance often claim that such access will help poor people out of poverty, including participants in the Microcredit Summit Campaign. For many, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses; for others it is a way for the poor to manage their finances more effectively and take advantage of economic opportunities while managing the risks. Critics often point to some of the ills of micro-credit that can create indebtedness. Many studies have tried to assess its impacts.

New research in the area of microfinance call for better understanding of the microfinance ecosystem so that the microfinance institutions and other facilitators can formulate sustainable strategies that will help create social benefits through better service delivery to the low-income population

Microfinance And Poverty

In developing economies, and particularly in rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. This is often the case when people need the services money can provide but do not have dispensable funds required for those services. This forces them to revert to other means of acquiring the funds. In their book, *The Poor and Their Money*, Stuart Rutherford and Sukhwinder Arora cite several types of needs:

1. **Lifecycle Needs:** such as weddings, funerals, childbirth, education, home building, holidays, festivals, widowhood and old age
2. **Personal Emergencies:** such as sickness, injury, unemployment, theft, harassment or death
3. **Disasters:** such as wildfires, floods, cyclones and man-made events like war or bulldozing of dwellings
4. **Investment Opportunities:** expanding a business, buying land or equipment, improving housing, securing a job, etc.

People find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country, but typically include livestock, grains, jewelry and precious metals. As Marguerite S. Robinson describes in his book, *The Micro Finance Revolution: Sustainable Finance for the Poor*, the 1980s demonstrated that "micro finance could provide large-scale outreach profitably", and in the 1990s, "micro finance began to develop as an industry". In the 2000s, the microfinance industry's objective was to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty. While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand. The obstacles or challenges in building a sound commercial microfinance industry include:

1. Inappropriate donor subsidies
2. Poor regulation and supervision of deposit-taking microfinance institutions (MFIs)
3. Few MFIs that meet the needs for savings, remittances or insurance
4. Limited management capacity in MFIs
5. Institutional inefficiencies
6. Need for more dissemination and adoption of rural, agricultural microfinance methodologies
7. Members' lack of collateral to secure a loan

Microfinance is the proper tool to reduce income inequality, allowing citizens from lower socio-economical classes to participate in the economy. Moreover, its involvement has shown to lead to a downward trend in income inequality

Women

Microfinance provides women around the world with financial and non-financial services, especially in the most rural areas that do not have access to traditional banking and other basic financial infrastructure. It creates opportunities for women to start-up and build their businesses using their own skills and talents.

Utilizing savings, credit, and microinsurance, Microfinance helps families create income-generating activities and better cope with risk. Women particularly benefit from microfinance as many microfinance institutions (MFIs) target female clients. Most microfinance institutions (MFIs) partner with other organizations like Water.org and Habitat for Humanity^[32] to provide additional services for their clients.

Microfinance generally agree that women should be the primary focus of service delivery. Evidence shows that they are less likely to default on their loans than men. Industry data from 2006 for 704 MFIs reaching 52 million borrowers includes MFIs using the solidarity lending methodology (99.3% female clients) and MFIs using individual lending (51% female clients). The delinquency rate for solidarity lending was 0.9% after 30 days (individual lending—3.1%), while 0.3% of loans were written off (individual lending—0.9%). Because operating margins become tighter the smaller the loans delivered, many MFIs consider the risk of lending to men to be too high. This focus on women is questioned sometimes, however a recent study of microentrepreneurs from Sri Lanka published by the World Bank found that the return on capital for male-owned businesses (half of the sample) averaged 11%, whereas the return for women-owned businesses was 0% or slightly negative.

Microfinance's emphasis on female-oriented lending is the subject of controversy, as it is claimed that microfinance improves the status of women through an alleviation of poverty. It is argued that by providing women with initial capital, they will be able to support themselves independent of men, in a manner which would encourage sustainable growth of enterprise and eventual self-sufficiency. This claim has yet to be proven in any substantial form. Moreover, the attraction of women as a potential investment base is precisely because they are constrained by socio-cultural norms regarding such concepts of obedience, familial duty, household maintenance and passivity. The result of these norms is that while micro-lending may enable women to improve their daily subsistence to a more steady pace, they will not be able to engage in market-oriented business practice beyond a limited scope of low-skilled, low-earning, informal work. Part of this is a lack of permissivity in the society; part a reflection of the added burdens of household maintenance that women shoulder alone as a result of microfinancial empowerment; and part a lack of training and education surrounding gendered conceptions of economics. In particular, the shift in norms such that women continue to be responsible for all the domestic private sphere labour as well as undertaking public economic support for their families, independent of male aid increases rather than decreases burdens on already limited persons.

If there were to be an exchange of labour, or if women's income were supplemental rather than essential to household maintenance, there might be some truth to claims of establishing long-term businesses; however when so constrained it is impossible for women to do more than pay off a current loan only to take on another in a cyclic pattern which is beneficial to the financier but hardly to the borrower. This gender essentializing crosses over from institutionalized lenders such as the Grameen Bank into interpersonal direct lending through charitable crowd-funding operations, such as Kiva. More recently, the popularity of non-profit global online lending has grown, suggesting that a redress of gender norms might be instituted through individual selection fomented by the processes of such programs, but the reality is as yet uncertain. Studies have noted that the likelihood of lending to women, individually or in groups, is 38% higher than rates of lending to men.

This is also due to a general trend for interpersonal microfinance relations to be conducted on grounds of similarity and internal/external recognition: lenders want to see something familiar, something supportable in potential borrowers, so an emphasis on family, goals of education and health, and a commitment to community all achieve positive results from prospective financiers. Unfortunately, these labels disproportionately align with women rather than men, particularly in the developing world. The result is that microfinance continues to rely on restrictive gender norms rather than seek to

subvert them through economic redress in terms of foundation change: training, business management and financial education are all elements which might be included in parameters of female-aimed loans and until they are the fundamental reality of women as a disadvantaged section of societies in developing states will go untested.

Poor people borrow from informal moneylenders and save with informal collectors. They receive loans and grants from charities. They buy insurance from state-owned companies. They receive funds transfers through formal or informal remittance networks. It is not easy to distinguish microfinance from similar activities.

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