

## DEVELOPMENT OF MICRO-FINANCE IN INDIA

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**Abstract :** Poor people and people who are socially marginalised have had decreased access to high-quality financial goods and services during the last few of decades. Only financial administrations are excluded. The development of microfinance in India was a key step in bringing monetarily displaced people back into the fold of the financial system. This was created in the middle of the 1980s through efforts to create ad hoc Small Help Groups (SHG). Giving the poor easy access to all kinds of financial services is the main driving force behind SHG. The phrase "microfinance" typically refers to small-scale financial services that help the needy in various regions, including credit and reserve funds. The connection between SHG-MFIs and banks is an effective way for the poor to use financial services without difficulty. This essay makes an effort to highlight the problem with minimal change in India.

**Keywords :** Financial Services, Micro-Finance , Financial System

### Introduction

Microfinance is a type of banking service that is provided to people & organizations who otherwise might don't have any different access to economic offerings. It refers to small savings, credit and coverage offerings prolonged to socially and economically disadvantaged segments of society, for enabling them to raise their earnings degrees and improve their dwelling requirements. The aim of microfinance is to offer impoverished people an possibility to grow to be self enough. It's miles supplied to unemployed and low profits human beings. The primary purpose of microfinance is to provide mortgage to the poor human beings or to below poverty line, who are not capable of borrow from other assets and to make their living wellknown better.

The concept of microfinance has been used globally for centuries, but it's Bangladesh's Muhammad Yunus who is recognized as the founder of the modern version of microfinance.

Microfinance refers to a range of financial services, including deposits, loans, money transfers,

savings and insurance, available to poor and unprivileged sections of the society; it also provide finance assistance to entrepreneurs and small business owners who don't have collateral neither qualify for a standard bank loan.

### **Evolution of microfinance in India**

- **Phase 1: The Cooperative Movement (1900-1960)**

Credit cooperatives served as a means of providing government-sponsored villages with subsidised credit at this time.

- **Phase 2: Subsidized Social Banking (1960-1990)**

With failure of cooperatives, the government focused on measures such as nationalization of banks, expansion of rural branch network, establishment of Regional Rural Banks (RRBs) and the setting up of apex institutions such as the National Bank for Agricultural and Rural Development (NABARD) and the Small Scale Industries Development Bank of India (SIDBI), including initiation of a government sponsored Integrated Rural Development Bank of India (IRDP).

- **Phase 3 : Shg-bank linkage program boom of ngo-mfis (1990-2000)**

The failure of backed social banking precipitated a paradigm shift in transport of rural credit score with nabard starting up the self help groups (shg) financial institution linkage programme (sblp), aiming to hyperlink informal ladies' companies to formal banks. The program helped boom banking gadget outreach to in any other case unreached people and provoke a trade within the bank's outlook towards low-income households from "beneficiaries" to "clients". This era became as a consequence marked through the extension of credit score at market fees.

### **Phase 4 : Commercialization of microfinance**

The first decade of the new millennium put up reform, rural markets emerged as the brand new increase drivers for mfis and banks, the latter taking hobby in the region most effective as part of their company social obligation but also as a brand new business line. On the call for facet,

ngo-mfis increasingly commenced transforming themselves into greater regulated prison entities together with non-banking finance agencies (nbfcs) to attract industrial funding.

### ***Microfinance institutions-bank linkage programme***

The micro finance organization model has additionally won impetus in india inside the current beyond. Mfi model is found worldwide whereas the shg-blm model is famous in indian context. In mfi version micro finance establishments borrow big quantity of price range from the apex financial establishments, banks and donor for lending the mortgage to the people or businesses. Those mfis follow the idea of joint liability institution (jlg) lending the mortgage. A jlg is an casual institution consists of 5 to 10 person participants who come collectively for the motive of availing financial institution loans both in my view or thru the organization mechanism against a mutual guarantee. Mfis in india exist in a ramification of forms like trusts registered underneath the indian consider act, 1882; public believe act, 1920; societies registered below the societies registration act, 1860; co-operatives registered below the together aided cooperative societies act of the states; and non-banking monetary organizations (nbfc)- mfis, which might be registered beneath segment 25 of the corporations act, 1956 or nbfcs registered with the reserve bank. Further to their internal assets, the mfis were allowed to mobilize resources thru diverse approaches including acquiring of bulk loans from banks/different monetary establishments.

### **The core values of microfinance are:**

**Integrity-** the microfinance establishments provide low profits clients, women and men, their families with get admission to to monetary services which might be patron focused, designed to enhance their health and delivered in a way that is moral, dignified, transparent, equitable and fee powerful.

**Best of provider-** they make certain first-rate services to customers that are appropriate to their wishes and delivered successfully in a handy and timely manner. Moreover, maintain excessive requirements of professionalism based totally on honest, non-discrimination and consumer centricity.

**Transparency-** the mfis provide whole and correct information to clients regaling all product and services they presented as well as create awareness and allow customers and all other stakeholders to understand the information furnished with respect to financial services supplied and availed.

**Honest practices-** the mfis makes an attempt to ensure that the customers are protected against fraud and misrepresentation, deception or unethical practices and also make sure that each one practices related to lending and healing of loans are truthful and hold respect for customerâ€™s dignity and with an information of purchaserâ€™s vulnerable state of affairs.

### LITERATURE SURVEY

Numerous studies have already been carried out with the goal of understanding the current situation and development of microfinance in India. These research also concentrated on Indian microfinance practises. Numerous important and descriptive studies have been conducted in this area by academics, business professionals, and researchers. In order to gain a thorough understanding of microfinance in India—its fundamentals, the different organisations that support it, the forms of delivery, the difficulties it faces, and its flaws—N. Tejmani Singh (2009) undertook research. It discovered that microfinance may help with the issues of insufficient housing and urban services as a crucial component of poverty aviation schemes, and that the changing phase of microfinance in India is advantageous. Ms. Nishi Pathak and Dr. Arvind Singh (2017) conducted research to determine an overview of microfinance's contribution to the Indian financial sector and its trend in the economy from 2010 to 2020. Least Square Method and Moving Average Method were utilised by the researcher to analyse the trend and forecast performance in 2020. Researchers discovered that the Indian economy has benefited from microfinance. The microfinance industry will grow to be a significant source of funding for underprivileged people who have the talent and capacity but lack financial resources. In order to have a general understanding of global microfinance and its effects on the Indian economy, Vivek Kumar Tripathi (2014) conducted a study. The purpose of the study was to evaluate the basic financial structure of microfinance in India as well as the state and potential of microfinance in India. Researchers discovered that India's microfinance sector supports the growth of the nation's financial system by empowering and integrating the informal sector. M. Radhakrishna (2012) discusses the function of microfinance organisations in improving the living conditions of rural residents. The study's goals included looking at the trends and patterns of microfinance institutions in India, looking at the effects of these institutions in rural regions, and coming up with some ideas for improving the credit efficiency of these organisations.

Through the study, the researcher discovered that South India is seeing a relatively high rate of MFI rise when compared to other regions of India. A study on the idea of microfinance, microfinance institutions,

and its impact on financial inclusion with an emphasis on poverty reduction and women's empowerment in India was undertaken by Sakshi Verma and Khushboo Aggarwal in 2014.

In order to comprehend the current situation, researchers conducted SWOT analyses of MFIs in India and examined MFI growth using the 2011 Bharat Microfinance Report. According to Parijat Dhar's (2016) state-by-state examination of microfinance adoption in India, the distribution of microfinance programmes across the nation's many regions has been uneven under both of the models now in use. Under both the SBLP and MFI models, the Southern and Eastern areas have a robust client outreach and loan portfolio. While microfinance is still in its infancy, the North-eastern and Northern areas have not made much progress in this area. (2018) Dr. Krishna Banana and Mrs. Haseena Shaik did research on the advancement of the bank linkage project for microfinance institutions in India as well as its delivery methodologies. You will discover that MFIs in India have developed into a thriving subset of the financial industry that uses a range of business methods. And in order to remain relevant in terms of capital provision, MFIs now need to reassess their current position in the market and restructure themselves.

The necessity of a conceptual framework for MFI regulation in India is outlined by K.S. Ranjani (2012). According to the research, microfinance institutions, like all other financial intermediaries, should subject themselves to self-evaluation in order to benefit both their clients and the industry as a whole. According to RK Panigrahi (2017), microfinance is becoming a potent tool for rural development in India. Women make significant contributions to the household and national economies, yet society does not recognise these contributions. The primary goal of the study was to determine if microfinance delivered through Self-Help Groups (SHGs) is helpful in promoting the socioeconomic development of rural residents, particularly in the Boudh district of Odisha. Through Self Help Groups (SHGs) Bank Linkage Programmes, which have been successful in meeting the financial needs of rural poor women as well as strengthening collective self help capacities of the poor, Dr. S.C. Vetrivel (2010) gains insight into the role of microfinance on women employment. The study's findings suggest that microfinance programmes for reducing poverty can help to address the issues of inadequate housing and urban services. In their 2015 article, Vipin Kumar, Monu Chauhan, and Ritesh Kumar provide an overview of microfinance in India and draw the conclusion that it has attracted attention as a potent weapon for eradicating poverty and fostering socioeconomic growth. The study shows that SHGs and MFIs are essential to the provision of microfinance services, which promotes the development of the underprivileged in India. The authors, Prof. Asha Bhatia, Dr. S.N.V. Sivakumar, and Ankit Agarwal, discuss the crucial roles that NBFCs, MFIs, RRBs, and SHGs play in the microfinance industry. Through the study, the researcher gains an understanding of the current

situation, identifies any gaps, and evaluates the reforms the current administration has implemented to strengthen the Indian rural economy. Microfinance can be incredibly helpful in helping some of the more than 10 million young Indians who enter the workforce each year find productive employment, according to the study's findings. In an effort to evaluate the function of RRBs over the past few years, Dr. Anoop Kumar Singh (2015) concentrated on their contribution to the microfinance industry. The growth trends of RRBs and SHGs were compared by researchers throughout the course of the last eight years, from 2006–2007 to 2013–2014. According to researchers, India's economy is so large and diverse that there is room for a variety of microfinance approaches to coexist there.

### **RESEARCH OBJECTIVES**

1. To learn the Indian loan disbursement percentage.
2. To be aware of the full client population served by MFIs.
3. To investigate the development and contemporary state of microfinance in India.

### **RESEARCH METHODOLOGY**

This study, which is exploratory and descriptive, aims to learn more about how microfinance has evolved in India. The have a look at attempt to analyze how the microfinance industry operating in india on the way to recognize this we collects the secondary data associated with the loans furnished with the aid of industrial banks, nearby rural banks (rrbs), cooperative banks to microfinance establishments (mfis) and self-help corporations (shgs) in india.

The information is amassed for 10 years from april 2008 to march 2018. Facts is accumulated from authentic record of the bharat microfinance file and standing of microfinance in india from rbi's reliable internet site.

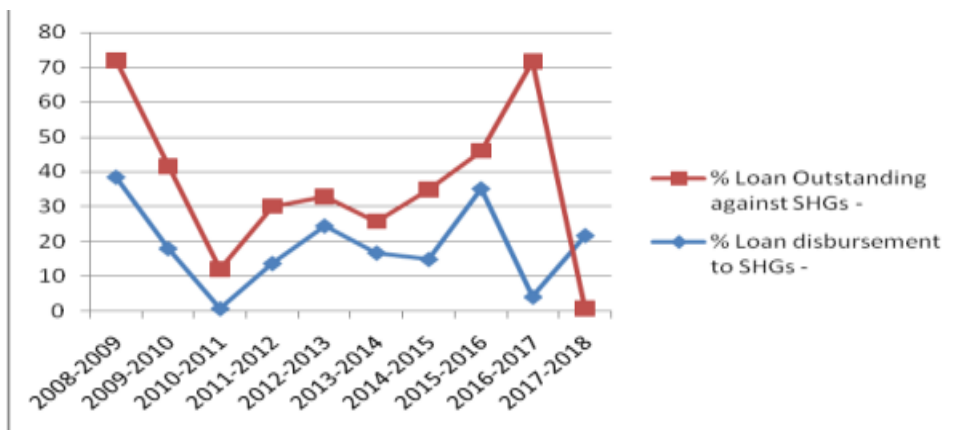
The data is analyzed with gear like graphs, tables and ratios and on the idea of the evaluation the inference is drawn approximately the microfinance in india

### Data Analysis

Year	% Loan disbursement to SHGs	% Loan Outstanding against SHGs	% Loan disbursement to MFIs	% Loan Outstanding against MFIs
2007-2008	-	-	-	-
2008-2009	38.5	33.41	89.44	82.22
2009-2010	17.95	23.62	116.02	102.58
2010-2011	0.65	11.35	-5.67	5.33
2011-2012	13.65	16.39	-34.7	-7.81
2012-2013	24.45	8.35	49.64	27.32
2013-2014	16.68	9.02	29.68	15.18
2014-2015	14.84	20.07	44.31	36.93
2015-2016	35.18	10.81	39.37	15.05
2016-2017	4	67.57	-10.55	11.02
2017-2018	21.68	-21.01	28.21	2.92

Source: Status of Microfinance in India

#### ➤ Loan Disbursement and Outstanding of SHGs:



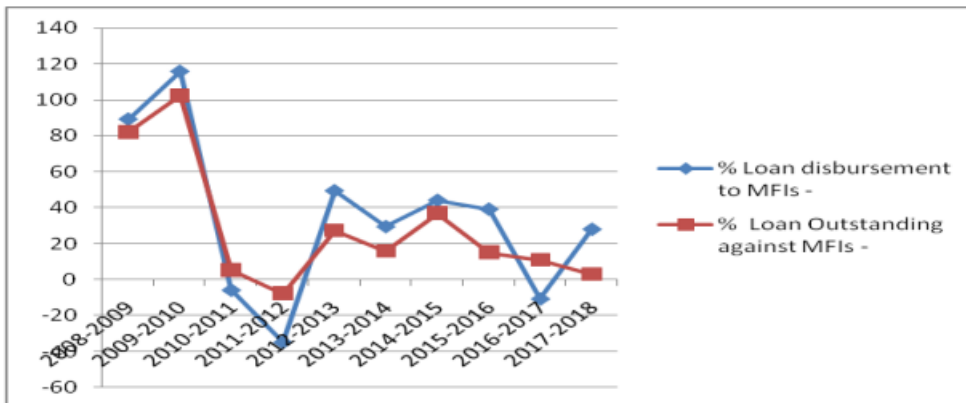
Graph 1



**Interpretation:** The growth rates of loans disbursed and loans outstanding to SHGs during the previous ten years are displayed in the table and graph below. We can see that Graph 1 shows the decline of loan disbursement from 2008-2011 due to world economic crises which occur in 2008 and Andhra Pradesh crises which occur in 2010. It shows growth for 2 years but after 2013 to 2015 it again falls because in 2014 new govt. came into existence.

There is decrease in the total outstanding loans in initial years, it is surprising that even after crises there is decrease in outstanding loan but outstanding loans increase after the 2014 when new government came into power. Due to India's demonetization of its currency later in 2016, the amount of unpaid loans increased.

Loans disbursed to MFIs and those still owing:



**Graph 2**

**Interpretation:** The loan disbursement and loan outstanding growth rates of MFIs over the previous ten years are displayed in the table and graph below. As we can see, the Andhra Pradesh troubles are what caused the fall in Graph 2 in 2010. In contrast to SHGs, MFIs are more negatively impacted by AP crises. Due to demonetization, it drops once again in 2016.

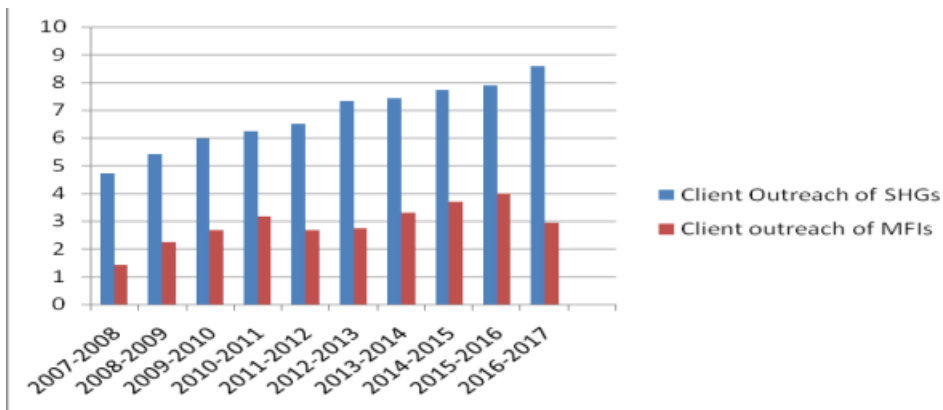
The graph also demonstrates a constant decline in the amount of outstanding debt, which amply confirms that the disbursed loans are being repaid by the loan recipients. Only in 2009-10 the graph was high due to economic crises and AP crises, other than that the situation is favorable.



Table 2

Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Client Outreach of SHGs	4.71	5.4	5.96	6.25	6.5	7.32	7.43	7.71	7.90	8.58
Client Outreach of MFIs	1.41	2.26	2.67	3.17	2.68	2.75	3.30	3.71	3.99	2.95

➤ Client outreach of SHGs and MFIs:



Graph 3

Interpretation: The graph above demonstrates the SHGs' ongoing expansion of their clientele, demonstrating the public's growing knowledge of microloans' accessibility. The data and graph demonstrate that SHG outreach has increased from 4.71 crore in 2007 to 8.58 crore in 2018. So there were

increase of 4.03 crore in outreach of SHGs. The above graph also shows fluctuation in the client outreach by MFIs. The graph demonstrates that outreach increases in the first few years but declines from 2011 to 2012. The reason was Andhra Pradesh Crises, people lose confidence in MFIs. But in 2013 RBI announce that some of MFIs will be converted in small money lending banks. In 2017, a total of 1.41 crore clients were served; in 2018, 2.95 crore clients were served, nearly twice as many as in 2017.

### ***Conclusion***

The significance of microfinance can be assessed by the reality that the reserve bank of india classifies microfinance loans as priority area loans. The a success utilization of microfinance loans for profits era as confirmed by way of excessive compensation quotes of microfinance customers is one of the motives that there's now a demonstrated commercial enterprise case for such loans. On March 31, 2017, the total gross loan portfolio of MFIs, excluding small finance banks (SFBs), reached over '46,000 crore. This is a boom of round 18% over the preceding year. Over the previous year, numerous sfbs have began operations. That is an thrilling improvement for microfinance clients, as sfbs will provide a full variety of monetary offerings to them.

At some point of the year 2017-18 the range of clients of shgs improved through 1.67 lakh with a corresponding increase in the financial savings through rs 3477.89 crore. The financial savings extremely good of shgs with banks as on 31 march 2018 has reached an all-time excessive of rs 19592.12 crore.

At some point of the year the banks have dispensed loans of rs forty seven,185.87 crore recording an outstanding boom over the past year. The entire loan amazing of shgs additionally reduced by means of 26.Sixty one% and stood at rs seventy five,598.45 crore as in opposition to rs ninety five,717.60 crore as on march 2017.

At some stage in the 12 months 2016-2017 the range of clients of mfis decreased by way of 1.04 crore. During the yr 2017-2018 the banks have disbursed loans of rs 22228.23 crore recording an increase over the past 12 months. The entire loan exceptional of mfis also increased by means of 2.Ninety two% and stood at rs 26, 12.19 crore as against rs 25,172.19 crore as on march 2017.

Microfinance growth over the next decade may be expected to be an extension of what has been achieved to date whilst overcoming the hurdles which have been posing difficulty in effective microfinance operation and its enlargement. There may be numerous participants in this process and their participation may be seen inside the following forms.

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