

Microfinance in India: Issues, Challenges and Opportunities

Mohammad Abu Saleh¹ and Dr. Zubair Ahmad²

1- Research Scholar

2- Assistant Professor

Department of Commerce, Shibli National P.G. College, Azamgarh (U.P.) – 276001

Abstract

The purpose of the paper is to highlight the issues, challenges and opportunities of microfinance sector in India. Many developmental programs implemented in India, microfinance programs have a strong rural oriented and targeted the poor, especially for women. Numerous challenges are ahead of this sector like lack of accessibility, unhealthy competition, seasonal migration, political unawareness, excluding vulnerable groups, threatening the financial discipline, resource constraints, low level knowledge of microfinance institutions (MFIs) etc. On the other hand, existing in poverty in India, along with opportunities, is paving way for the growth of this sector and offering a huge market potential for microfinance. On this basis the sector presents a lot of opportunities such as: stimulating growth of economy, women empowerment, increasing volume, accessibility and outreach, economics of scope etc.

Keywords: Poverty; Microfinance; Issues; Challenges; Opportunities; Women Empowerment ; Rural Economy; Microfinance Institutions (MFIs)

1. Introduction

Microfinance is the provision of financial services to low-income clients, such as consumers and small business owners, who have traditionally been denied access to banking and related services. It is a movement whose goal is "to create a world in which as many poor and near-poor households as possible have permanent access to an acceptable range of high-quality financial services, including not only credit but also savings, insurance, and fund transfers." Those who support microfinance believe that having access to it will help impoverished people get out of poverty. The goal of microfinance is to bring about systemic change in financial systems all throughout the world. Microfinance aims to serve the underprivileged majority, assist them rise out of poverty, and make them full participants in their country's social and economic growth, rather than the exclusive

banking institutions that have enriched and shielded the wealthy for decades. While the serving the society microfinance sector facing various issues and challenges.

2. Review of Literature

Mahajnr. (2017) found in his study, microfinance is critical in India for achieving financial inclusion for the poor in both rural and urban areas. If handled properly, lending to the poor can be a miracle for the country's development and poverty alleviation. Microcredit can play a significant role in poverty eradication if the government and MFIs work cooperatively. The difficult issue in microfinance aids in the reduction of impoverished people's financial troubles. MFIs' inability to obtain sufficient finances is a key barrier to their expansion, hence these organizations should explore for alternate sources of funding. Microfinance has a significant impact on poor people's confidence, courage, and skill development.

While the Micro Finance Sector appears to be growing rapidly and without impediments, the study demonstrates that it has also brought to light a number of concerns and issues. Creating a regulatory framework for MFIs, providing finance to MFIs as a regular channel of finance/refinance, reduction in cost of resources/management resulting in lower lending rates for micro finance beneficiaries, and safety and precautions for MFIs entering new financial services such as micro leasing, insurance, housing, and medical services are some of these issues. Nagaraju, R. C., & Reddy, V. R. (2016).

In India, microfinance is critical for achieving financial inclusion for the underprivileged in both rural and urban areas. If handled properly, lending to the poor can be a miracle for the country's development and poverty alleviation. Microcredit can play a significant role in poverty eradication if the government and MFIs work cooperatively. MFIs are the foundation institutions that provide low-income people with financial services. With their innovative techniques, they have been proactive in India's overall growth process. They have enormous potential not only as a peer-to-peer (p2p) lending mechanism, but also as a means of social bonding. M. Jain and E. Jain (2014).

According to S.RAVI (2012) Microfinance has yet to gain traction in India's banking sector. However, India now has the expertise, finance, and technology to handle these issues, though they are not yet entirely aligned. The next several years promise to be exciting for the supply of financial services to India's poor people, thanks to a more permissive climate and a rise in economic growth. In India, the supply side of microfinance is currently woefully inadequate to bridge the demand-supply gap, but it has the potential to be a huge opportunity for the financial sector and the economy as a whole.

S. Ravi (2012) has conducted his study in Namakkal District of Tamil Nadu the samples are taken from all 15 blocks in Namakkal District. In each block, 50 samples were identified on the basis of convenience sampling method; the total sample is fixed as 750. In the study he has investigated the various problems faced by the women Self Help Group members and the impact of microfinance loan on empowerment of sample women beneficiaries in the study area. The Results showed that the lack of proper guidance was the first and foremost problem faced by the SHG member in the study area. Most of the members are not well educated and they are not familiar with the rules and regulations for availing the banking services. They are in need of proper guidance.

3. Objectives

The objectives of the study are:

- I. To explore the new dimensions of microfinance.
- II. To analyze the core issues in the promotion of microfinance in India.
- III. To study the challenges in the implementation of microfinance policies in India.
- IV. To offer suggestions for the development of rural economy of India through microfinance.

4. Research Methodology

As this is a descriptive study, secondary data is used as the foundation for this paper. Data is gathered from books, various websites, periodicals, newspapers, NABARD-published RRB reports, Asian Development Bank publications, and fresh research articles published on various websites.

5. Microfinance in India

The Self-Employed Women's Association (SEWA) in Gujarat was the first to pioneer microfinance in India, establishing SEWA Bank in 1974. Since then, this bank has been providing financial services to those in rural areas who want to start their own enterprises. Kudumbashree, Kerala's Poverty Eradication Mission, which began in 1998, is an example of a successful initiative. Neighborhood Groups (NHGs) is a female-led community organization that brings women from rural and urban communities together to fight for their rights and empower them. Women work on a number of subjects through these NHGs, including health, nutrition, and agriculture. They can earn money and apply for microcredit while working under this programme. Small-scale efforts like these help people in impoverished places gain financial independence.

To meet the needs of India's huge rural population, microfinance facilities are required. Microfinance's key goals in India should be to promote socioeconomic development at the grassroots level through a community-based strategy, empower women, and increase household income.

The formation of the Self Help Group (SHG) – Bank Linkage Programme (SBLP), which began as a pilot project in 1992 by NABARD, lay the groundwork for the microfinance movement. The programme was a success, and it has now become India's most popular microfinance model. Microfinance has so become a popular catchphrase in India.

6. Recent Scenario of Microfinance Sector in India

The overall microfinance industry's gross loan portfolio (GLP) surged by 11.9 per cent to Rs 2,59,377 crore as on March 31, 2021 from Rs 2,31,787 crore as on March 31, 2020, says a report. The growth was driven by an addition of 4 lakh borrowers during the pandemic-struck 12-month period ending March 2021, according to a report Micrometer, released by Microfinance Institutions Network (MFIN). MFIN is an industry association comprising 58 NBFC-MFIs and 39 associates including banks, small finance banks (SFBs) and NBFCs. As on March 31, 2021, the microfinance industry served 5.93 crore unique borrowers, through 10.83 crore loan accounts, the report said.

It said 13 banks hold the largest share of the portfolio in micro-credit with a total loan outstanding of Rs 1,13,271 crore, which is 43.67 per cent of total micro-credit universe. Non-banking financial companies-microfinance institutions (NBFC-MFIs) are the second largest provider of micro-credit with a loan amount outstanding of Rs 80,549 crore, accounting for 31.05 per cent to total industry portfolio, the report showed. Small finance banks (SFBs) have a total loan amount outstanding of Rs 41,170 crore with a total share of 15.87 per cent.

NBFCs account for another 8.36 per cent, and other MFIs account for 1.05 per cent of the total microfinance universe, it said. The report further showed that the gross loan portfolio of NBFC-MFIs increased by 11 per cent to Rs 81,475 crore as on March 31, 2021, compared to Rs 73,412 crore as on March 31, 2020. This GLP on NBFC-MFIs includes owned portfolio of Rs 68,894 crore and managed portfolio of Rs 12,581 crore, it said. The association said its NBFC-MFI members disbursed Rs 57,891 crore of loans in fiscal 2020-21 through 1.70 crore accounts. Average loan amount disbursed per account during FY20-21 was Rs 35,726, an increase of around 20 per cent in comparison to last financial year, the report said. During FY2020-21, NBFC-MFIs

received a total of Rs 40,797 crore in debt funding which is 9.2 per cent higher than FY2019-20. Total equity of the NBFC-MFIs grew by 15 per cent to Rs 18,663 crore as on March 31, 2021.

Year	House Holds (in Crore)	SHGs (in Lakhs)	Deposits (In Crore)	Loans (In Crore)	Outstanding (In Crore)
2016-17	10	85	16114	38800	61600
2017-18	11	87	19500	47000	75,500
2018-19	12	100	23000	58000	87000
2019-20	12.4	102	26000	77000	1,00,000
2020-21	13.8	112	37,477	58000	1,03,289

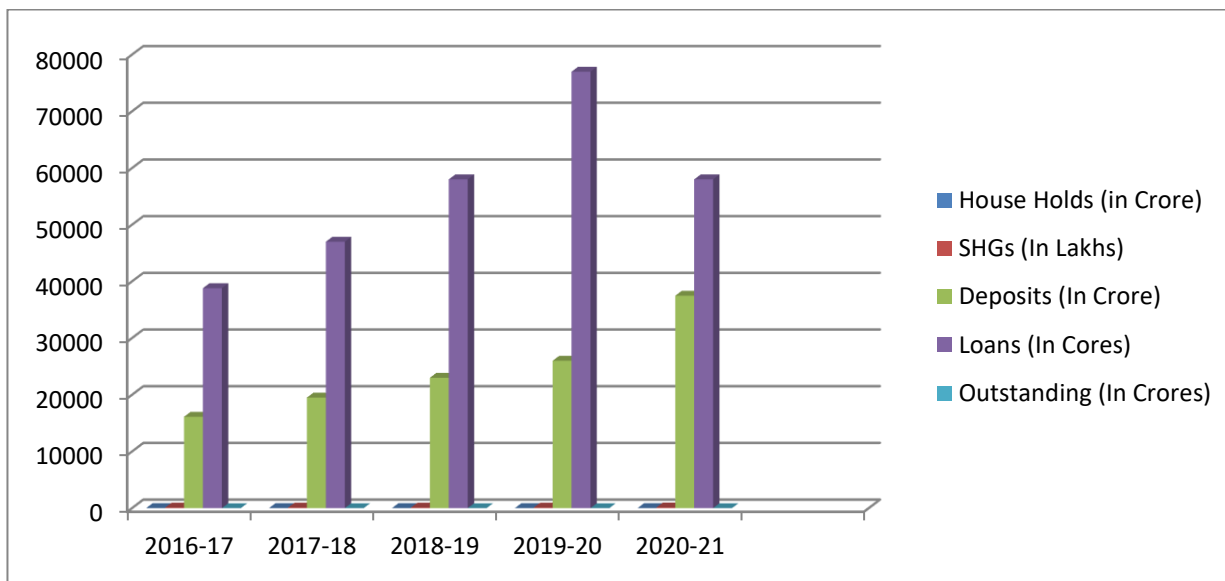


Table 1. Progress of Micro-Finance in India

Source: Report on Micro-finance.

7. Challenges faced by Indian Microfinance Industry

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I. The expense of the outreach

Microfinance institutions serve small ticket loans to the urban poor and under banked in distant hinterlands as a result of the model. There are logistical and field force costs associated with the outreach. As a result, margins are eroding, necessitating digitization and process automation. MFI outreach in India is extremely low, at only 8%, compared to 65 percent in Bangladesh.

II. Growth of the Self-Help-Groups (SHGs)

The SHG or Joint Liability Group (JLG) model is used by many MFIs. These models are chosen at random regardless of the scenario, increasing the possibility of the weaker portions taking on more debt than they can handle, which is irreversible. Because of the government's engagement in supporting self-help groups, they have witnessed rapid expansion, putting microfinance institutions under strain. This has long-term negative consequences for the MFIs' viability.

III. Higher Rate of Interest Compared to the Mainstream Banks

Microfinance institutions have a limited transaction volume, yet the cost of those transactions is fixed and substantial, posing a considerable problem for all of them. Mainstream banks have long roots in the market, which has evolved to meet the demands of the times. People can find a wide range of things in one location at a reduced cost when compared to MFIs. The majority of mainstream banks charge a modest interest rate on their loans, ranging from 8 to 12 percent, whereas MFIs charge a high interest rate on loans ranging from 12 to 30 percent of the principal amount. The Reserve Bank of India (RBI) announced guidelines to abolish the MFI interest rate ceiling of 26%. Many MFIs have benefited from the guidelines, while borrowers have been pushed away by the rising loan rates. Microfinance institutions deals with a small number of transactions, yet their costs are constant and significant.

IV. Lack of Investment Validation

Investment valuation may be a critical competency for an MFI's smooth operation. MFIs operate in developing and developed areas with limited activity. As a result, MFI finds it difficult to gain access to information for appraisal purposes. MFI management teams cannot understand the quantity of quality information they have to build investment decisions due to a lack of consistent and trust worthy valuation methods.

V. Focus on Rural Poor Only

MFIs frequently make the error of ignoring the urban poor in favour of focusing on the rural poor. Only 800 MFIs have been identified in India that focuses on the urban poor.

VI. Loan Default

Borrower's failure to manage their debts leads to loan default, which stymies the growth of Microfinance Institutions. Borrowing has increased significantly, while risk management has remained ineffective. The industries make loans without requiring collateral, increasing the risk of default and bad debts. Effective planning is required for good growth, which is still lacking in most MFIs. Furthermore, the absence of apex control, which was one of the causes of India's Microfinance Crisis in 2008, becomes a source of over-indebtedness. In MFIs, late payments account for over 70% of all payments, further limiting the institution's working capital and profit.

VII. Geographical factors

Many MFIs have discovered that working and dealing with clients in remote places is challenging, and hence geographical variables play an important part in posing problems to MFIs. Microfinance institutions that target the rural poor frequently try to enter the BPL areas, but lack of infrastructure makes it difficult for them to reach their consumers.

VIII. Over-dependence of the banking system for the fund

Around 80% of the Microfinance institution's funds came from commercial banks. The majority of MFIs is registered as non-government organizations (NGOs) and relies on banks for stable funding for their lending activities. These are generally private banks that charge a higher rate of interest for a shorter period of time. These MFIs are incompetent and less active in trading because of their over-dependence on banks.

IX. Low knowledge of financial services

Another important stumbling block in the road of microfinance institutions is citizens' lack of knowledge of fundamental principles. The lack of financial services in the microfinance industry is a problem for both customers and institutions. This not only prevents people from joining MFIs, but it also puts them in a financial bind.

X. Lack of Innovative and Diversified Products

Microfinance is often misunderstood, and many people limit it to microcredit exclusively. Microfinance offers a wide range of products, including working capital loans, insurance, money transfers, and saving loans, among others. However, most of India's microfinance institutions have yet to offer these services. As a result, we stated that their operations are severely limited. This sector has so far completely overlooked low-wage workers in particular.

8. Opportunities of Microfinance sector in India

In spite of the fact that microfinance has shown very good and constant performance in the last few years, though, the opportunities are further to grow to this sector. Following is a brief count of some these opportunities:

I. Poverty Alleviation

Poverty is currently the most pressing issue in the world, as well as in India. Microfinance is the most important tool for alleviating poverty. It has been proven that microfinance can help people get out of poverty. Microfinance is not only a key tool for reducing poverty, but it can also help to diversify income from the wealthy to the poor (Chen 1992)

II. Impact on Health, Social Capital and Economy

Microfinance has a number of good effects on physical and social capital, such as health and education, which can have a significant impact on economic activity and development. According to one estimate, giving mothers a 1% credit raised their chances of enrolling in school by 1.9 percent for girls and 2.4 percent for boys (Grameen Bank). Microfinance helps disadvantaged households produce income and jobs, which help them, satisfy their consumption patterns.

III. Microfinance as Development Tool

Microfinance can also help in unexpected crises like business risks and supply disruptions. Microfinance acts as a buffer against these jolts. It aids in the prevention of crises and the restoration of stability. Various studies have demonstrated that national and worldwide crises have a minor impact on it.

IV. Opportunity for Commercial Banks

Microfinance Institutions are providing very few Microfinance products it provides opportunity for commercial banks to new and innovative Microfinance products. According to a survey it is found that in microfinance product there are very high recovery and profitability. So commercial bank may have an opportunity to invest their funds in this sector.

V. Women Empowerment

Women can have an opportunity to start their own business through microfinance, as we have seen in Bangladesh, where most microfinance institutes prefer to lend to women because their repayment rate is very high. Women's empowerment rose as a result of the microfinance innovation in a male-dominated society.

9. Findings

The paper found that in India there are large numbers of populations and rural poor households still does not have access to banking and other financial services. Therefore, to provide, access to these services to them RBI and government of India has taken various initiatives and Microfinance one of the Initiatives. Microfinance sector is successfully trying to provide financial services to marginalized section of the society in taking all these initiatives Microfinance sector found out some issues and challenges. Many hindrances and obstacles are there in the path of promoting and achieving financial activities. It should not be taken as an obligation by these intuitions and banks but seen as future prospect and opportunity for growth and targeting untapped and unorganized market.

10. Suggestion

As we found in our study that Indian Microfinance Industry facing various challenges such as High Interest charged by Clients, Over indebtedness, Over reliance on Commercial Banks for fund, Lack of financial services awareness, Expansion of SHGs, Missing target and cost of outreach and also some regulatory concerns. These are suggestion to overcome from the challenges

Microfinance Institutions should adhere to reasonable interest rate on financial products and rate disclosed to clients. Government and Reserve Bank of India should make proper regulation for the microfinance sector so that interests of stake holder can be safe guard. MFIs should focus on poor who lives in rural areas for this MFIs can open more branches in these areas. MFIs should provide various ranges of financial services to compete with commercial banks including credit, remittance, financial advice, etc. MFIs should use new technologies, Applications and IT tools to reduce operational cost. Funds available to MFIs are limited, due to limited fund expansion and reach of MFIs are limited reduce this advantage MFIs should look new funding source for their loan portfolio.

11. Conclusion

As previously stated, microfinance services have grown in popularity in recent years and have been utilized to alleviate poverty. Because women have a higher rate of recovery than males, most MFI programmes and products prefer to lend loans and cash to women rather than men. On the contrary, it empowers women both socially and economically. It is a common misconception that microfinance is a magical device that can transform the economic and social landscape of a country in an instant. But no doubt it is very important tool

which can be used to bring about social and economic changes gradually and durably. If we analyze microfinance as an innovation in financial services in India, we can say it is still in a take-off stage since 2010. Most of the challenges of microfinance which are being faced in India have been discussed above. As a result of the discussion, we suggested a strategic policy towards the microfinance sector should be developed and designed to boost and cater the challenges of the future in this sector. India has a lot of opportunities in this sector. The government needs to play its vital role to accelerate this sector and provide essential facilities to minimize challenges which were discussed in this paper. The significance of this sector is to mobilize deposits in such a manner that it can play a vital role in economic development.

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