International Journal of Academic Research
ISSN: 2348-7666; Vol.3, Issue-9(1), September, 2016
Impact Factor: 3.656; Email: drtvramana@yahoo.co.in

Microfinance Institutions in India-Financial Inclusion

Dr. K. Srinivas, Asst.Prof. of Economics, Government Degree College
Cherial, Warangal-506223

Abstract:
Concept of micro finance is emerged in need of meeting special goal to empower under-privileged class of society, women, and poor, downtrodden by natural reasons or men made; caste, creed, religion or otherwise. The idea of micro finance was developed as a survival strategy for the poor. The paper discusses the types of MFI's, its working and some of the leading MFI's in India. To understand the current scenario we have discussed SWOT of MFI's in India and analyzed growth of MFI's based on Bharat Microfinance Report 2011. Inclusive financial system, one that allows broader access to financial services, can lead to faster and more equitable growth. Such a system allows poor households to save and manage their money securely, decreases their vulnerability to economic shocks and allows them to contribute more actively to their development. Microfinance is increasingly being considered as one of the most effective tools of reducing poverty. Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor. Micro finance still plays a modest role in India. At the All India Level less than 5 per cent of poor rural households have access to micro finance (as compared to 65 per cent in Bangladesh) with significant variation exists across the states.

Key words: *Financial Inclusion, Microfinance Institutions, Poverty Alleviation, Women Empowerment*

1. Introduction

Indian public policy for rural finance from 1950s to till date mirrors the patterns observed worldwide. Increasing access to credit for the poor has always remained at the core of Indian planning in fight against poverty. The assumption behind expanding outreach of financial services, mainly credit was that the welfare costs of exclusion from the banking sector, especially for rural poor are very high. Starting late 1960s, India was home to one of largest state intervention in rural credit market and has been euphemistically referred to as 'Social banking' phase. It saw nationalization of existing private commercial banks, massive expansion of branch network in rural areas, mandatory directed credit to priority sectors of the economy, subsidized rates of interest and creation of a new set of rural banks at district level and an Apex bank for Agriculture and Rural Development (NABARD) at national level.

In India Microfinance Revolution began in the 1980s with the formation of pockets of informal Self Help Groups (SHG) engaging in micro activities financed by Microfinance. But India's first Microfinance

Institution 'Shri Mahila SEWA Sahkari Bank was set up as an urban co-operative bank, by the Self Employed Women's Association (SEWA) soon after the group (founder Ms. Ela Bhatt)was formed in 1974. The idea of micro finance was developed as a survival strategy for the poor. Ela Bhatt in India and Professor Muhammad Yunus of Bangladesh are the pioneers in this field. Ela Bhatt founded Self Employed Women's Association (SEWA) in 1972. It was to bring poor women together and give them ways to fight for their rights and earn better livings. Its membership has grown to 7000 members in 1975 to over 700,000. Over the past few decades, this innovative scheme has attracted a range of non-governmental and state-sponsored institutions. Leading financial institutions are the Small Industries Development Bank of India (SIDBI), the National Bank for Agriculture and Rural Development (NABARD) and the Rashtriya Mahila Kosh (RMK). A few NGOs like PRADAN, ICECD, MYRADA, and SEWA have played a significant role in promoting micro-credit. With micro-credit becoming financially viable, even commercial banks like ICICI Bank, ABNAMRO, HDFC Bank, UTI Bank and international banks like Citibank have also entered the field. Non-banking corporate is participating as well.

2. Objectives

- The paper aims to study the concept of Microfinance and Microfinance Institutions(MFI's)
- To study the current scenario of MFI's in India
- To study the impact of MFI's on financial inclusion with special focus on poverty alleviation and women empowerment.

3. Research Methodology

The research is based on the information collected from various secondary sources including journals, articles and various research based websites. Attempts have been made to collect latest data available from reports on Microfinance.

4. Literature Review

- Shankar (2013) in his study examined that MFIs do break down many barriers to financial inclusion MFI penetration in the country is skewed and excludes some areas neglected by the banking sector, suggesting a need for policy incentives to encourage expansion to those areas.
- Christabell and Raj (2012)) in their study examined that The Women's Self Help Group movement is bringing about a profound transformation in rural areas of India. Microfinance Institutions (MFIs) play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor.
- Ghosh (2013) in his study examined that that microfinance cannot be seen

as a silver bullet for development and that profit-oriented microfinance institutions are problematic. To fulfill even some of its progressive goals, it must be regulated and subsidised, and other strategies for viable financial inclusion of the poor and of small producers must be more actively pursued.

- Shetty in his study examined that in the post-microfinance large number of the member households are not only accessing the credit services, but also they are competent enough to access the savings, micro-insurance and other non-financial services.

5. Conceptual Framework

Microfinance is buzzing word, used when financing for micro entrepreneurs. Concept of micro finance is emerged in need of meeting special goal to empower under-privileged class of society, women, and poor, downtrodden by natural reasons or men made; caste, creed, religion or otherwise. The principles of Micro Finance are founded on the philosophy of cooperation and its central values of equality, equity and mutual self-help. At the heart of these principles are the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their children.

Micro credit is the most common product offering. Micro-finance in India is synonymous with micro credit; because savings, thrift and micro-insurance constitute a miniscule segment of the micro finance space. The motherland for Indian Microfinance is Andhra Pradesh, mainly because of the state government's critical efforts in the late 1980s in building SHG-bank linkage models with loans from NABARD (National Bank of Agriculture and Rural Development) which built up a strong Micro-finance portfolio.

5.1. Microfinance Institution

A MFI is an organization that acts as an interface between the formal credit delivery institutions and credit seekers, with an aim to assist for the socio economic development of poor and marginalized people. MFIs are essential to encourage micro enterprises and empower local people including women. The geographical distribution of MFIs is very much concentrated in the Southern India where the rural branch network of formal bank is excellent.

5.2. Types of MFI

By taking into account legal structures, MFIs may be classified as follows:- Not For profit MFIs:-

- Societies (e.g such as Bandhan, Rashtria Seva Samithi and Gram Utthan.)
- Public trusts (such as Shri Khetra Dharmasthala Rural Development Project, and community development centre.)
- Non-profit companies(such as Indian Association for savings and

credit, and cash per micro credit)
Mutual benefit MFIs

- Co-operatives registered under state or National Acts(such as Pustikar Lagh Vyaparik Pratisthan Bachat and sakh Sahkari Samiti Limited)

- Mutually-aided Co-operative societies (MACS, such as Sewa Mutually Aided Co-operative Thrift Societies Federation Ltd.) For –Profit MFIs

- Non-banking financial Companies (NBFCs, such as Bharatiya Samruddhi Finance Ltd, Share Microfin Ltd, SKS Microfinance Ltd and Spandan Sphoorthy Finance Ltd.)
- Producer Companies (such as Sri Vijaya Visakha Milk Producers Co. Ltd.
- Local area banks (the only such MFI is Krishna Bhima Samruddhi Local Area Bank.)

5.3. Working of Microfinance Institutions

The Microfinance Institutions (MFIs) take little or no collateral security for the credit extended. The people covered are mostly those who cannot avail loans from banks and other such financial institutions due to the lack of ability to provide guarantee or collateral security against the money borrowed. Although the amount of finance provided individually is less (say around 5-10 thousand), they aggregate to a substantial amount when the entire financial year is considered (most cases running to crores).

Banks failing to extend loans to the poor section of people is the high default risk for repayment of interest and in some cases, the principle amount itself. So the question arises as to how the MFIs are able to thrive and perhaps record a staggering growth rate over the years and how they almost nullify the risk of default of repayment. It is pertinent to note that the individuals availing loans are divided into groups (each group consisting of say 5 members) headed by one leader from the group. The amount to be repaid by every individual member is guaranteed by the remaining members of the group. 4-5 groups from one particular locality form a batch, again headed by a leader from amongst the members of different groups. A field officer, who is the employee of MFI, is put in-charge of each batch, who conducts meetings periodically (say every week) where the collections are made. It is quite clear that the mutuality concept is used here to the extent that, groups of persons with a common objective and mutual interest are involved. The default risk is further reduced by applying more conditions. A few of them are:-

- An individual can avail his/her initial loan, only after attending certain number of batch meetings.
- Subsequent loans can be availed depending on the history of repayments made towards earlier loans.
- Size of loans will be increased gradually.

- Interest on a single loan will be reduced gradually during each collection period.

6. Client Outreach, Portfolio Size and Growth Rate of Indian MFIs

- MFIs operate in 517 districts in India spread across 27 states.
- The total MFI client outreach as of March 2011 was 3.17 crore while the total microcredit outstanding was Rs. 2500 crore which have been scrutinized to banks.
- This year loan portfolio growth rate has decreased to 13.15 percent compared to 56 percent in the previous year.
- During 2010-11, the microfinance through MFI channel has grown 18.75 percent in 2011 in terms of client outreach and

  13.15 percent in terms of credit portfolio.
- MFIs collectively disbursed Rs. 33730 crore as loans to clients during 2014-15. Also, the average loan per client stood at Rs. 5706, which is less than that of Rs.9766 in the last year.
- In 2014-15, more than one third of the MFIs displayed negative growth in client and loan portfoli

Rank	Name	Scale
1	Bandhan (Society and NBFC)	108
2	Microcredit Foundation of India	75
3	Saadhana Microfinance Society	263
4	Grameen Koota	209
5	Sharada's Women's Association for Weaker Section	229
6	Asmitha Microfinance Ltd.	80
7	SKS Microfinance Private Limited	61

Table 1: Top Microfinance Institutions In India

7. SWOT Analysis of MFIs

SWOT analysis gives a snapshot of the challenges and opportunities faced by microfinance institutions.

7.1. Strength

- Helped in reducing the poverty: As we know that Indian, more than 350 million people in India are below the poverty and for them the Micro Finance is more than the life. By providing small loans to this people Micro finance helps in reducing the poverty.
- Huge networking available: In India there are many more than 350 million who are below the poverty line, so for MFIs there is a huge demand and network of people. And for borrower there are many small and medium size MFIs are available in even remote areas.

7.2. Weakness

- Not properly regulated: In India the Rules and Regulation of Micro Finance Institutions are not regulated properly. In the absent of the rules and regulation there would be high case of credit risk and defaults.

High number of people access to informal sources: According to the World Bank report 80% of the Indian poor can't access to formal source and therefore they depend on the informal sources for their borrowing and that informal charges 40 to 120% p.a

- Concentrating on few people only: India is considered as the second fastest developing country after China, with GDP over 8.5% from the past 5 years. But this all interesting figures are just because of few people. India's 70% of the population lives in rural area, and that portion is not fully touched.

7.3. Opportunity

- Huge demand and supply gap: In India around 350 million of the people are poor and only few MFIs there to serving them. There is huge opportunity for the MFIs to serve the poor people and increase their living standard. The annual demand of Micro loans is nearly Rs 60,000 crore and only 5456 crore are disbursed to the borrower.
- Employment Opportunity: Micro Finance helps the poor people by not only providing them with loan but also helps them in their business; educate them and their children etc. So in this way Micro Finance is helping to increase the employment opportunity for them and for the society.
- Huge Untapped Market: India's total population is more than 1000 million and out of 350 million is living below poverty line. So there is a huge opportunity for the MFIs to meet the demand of that unnerved customers and Micro Finance should not leave any stones unturned to grab the untapped market.
- Opportunity for Pvt. Banks: Many Pvt. Banks are shying away from to serve the people that are unable to access big loans, because of the high intervention of the Govt. but the door open for the Pvt. Players to get entry and with flexible rules Pvt. Banks are attracting towards this segment.

7.4. Threat

- High Competition: This is a serious threat for the Micro Finance industry, because as the more players will come in the market, their competition will rise , and we know that the MFIs has the high transaction cost and after entrant of the new players there transaction cost will rise

International Journal of Academic Research
ISSN: 2348-7666; Vol.3, Issue-9(1), September, 2016
Impact Factor: 3.656; Email: drtvramana@yahoo.co.in

further, players will come in the market, their competition will rise.

The SWOT ANALYSIS

STRENGTHS	WEAKNESS
•Helped in reducing the poverty •Huge networking available	•Not properly regulated •High number of people access to informal sources •Concentrating on few people
OPPORTUNITIES	**THREATS**
•Huge demand and supply gap •Employment Opportunity •Huge Untapped Market •Opportunity for Pvt. Banks	•High Competition

Figure 1: SWOT analysis of Microfinance Institutions

8. Microfinance and Financial Inclusion

Microfinance is increasingly being considered as one of the most effective tools of reducing poverty. Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor. The Micro Finance Institutions (MFIs) accesses financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor. MFIs could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele.

9. Financial Inclusion

Inclusive financial system, one that allows broader access to financial services, can lead to faster and more equitable growth. Such a system allows poor households to save and manage their money securely, decreases their vulnerability to economic shocks and allows them to contribute more actively to their development. The financially excluded sections largely comprise marginal farmers, landless labourers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (Thorat, 2007a). So, this lead to the emergence of for Financial Inclusion as a strategy to bring so called excluded people in to the mainstream. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups.

Bharat Microfinance Report 2014 reveals that:

- The Government of India and the RBI with measures like the microfinance bill, India Microfinance Equity Fund of Rs. 100 crore, SHG Fund Rs. 500 crore and priority sector credit facilities to MFIs etc., have recognized the role of microfinance MFIs in Financial Inclusion
- The Self-Help Group (SHG) movement has helped over 8 crore poor women to accumulate savings worth Rs. 6200 crore and obtain small loans Rs. 28000 crore as of March 2010.
- The SHG movement has to receive impetus in North and North-Eastern states
- MFIs have consistently raising volume of credit made available to the clients located in rural and remote geographies, belonging to different social segments.
- The clientele of MFIs included more than 95 percent women, disabled people, religious minorities, Scheduled Castes and Scheduled Tribes and Below Poverty Line households.
- MFIs offered products ranging from microcredit, micro-insurance, savings, and remittance. Most of the credit availed from MFI are apparently used for income generation purposes.

10. Microfinance and Women Empowerment

Microfinance in India through its major channels served over 33 million Indians in the financial year 2007-08, up by 9 million over the last financial year, out of which around 80% clients were women. Empowerment is a social action process that promotes participation of people, organization and communities in gaining control over their lives in their community. There is urgent need of empowering women especially in rural areas. The formation of Self Help Group and Micro Financing will enhance their socio-economic position in the society. Small loans can make good business sense among the women. It has been noticed that women in particular stand to gain a lot from micro-finance because it gives them an independent means of generating wealth and becoming self-reliant in a society that does not offer them much scope for entrepreneurship. And since it is women who run the household, a higher standard of living for women ensures better governance and a healthier and more prosperous future for the children and a better future for the nation. The success of micro credit initiatives has often been attributed to their particular focus on empowering women and encouraging their self-reliance through developing their own means of income. Various case studies show that there is a positive correlation between credit availability and women's empowerment. It is observed that majority of rural women who are associated with self-help group activity positively succeeded to gain them empowered. Women in rural India lived in virtual isolation, unable to access even the most basic of services. But, with the formation of Women's Self-Help Groups, these women are now achieving social and physical mobility. It is recognized that while the empowerment of women is a process that will not happen automatically, SHG is a suitable means for the empowerment of women. The impacts of SHGs on socio-economic status of women were found significant.

11. Conclusion

The Indian economy at present is at a crucial juncture, on one hand, the optimists are talking of India being among the top 5 economies of the world by 2050 and on the other is the presence of 260 million poor forming 26 % of the total population. The enormity of the task can be gauged from the above numbers and if India is to stand among the comity of developed nations, there is no denying the fact that poverty alleviation & reduction of income inequalities has to be the top most priority.

The important challenge facing the banking sector is to extend financial services to all sections of society. Like others, the poor need a range of financial services that are convenient, flexible, and affordable and not just loans. At this juncture the introduction on “financial inclusion” comes from the recognition that this can serve the interests of both society and the banking system. As a complementary to this, micro-finance1 can work as a powerful tool to fight poverty became the effective approach of financial inclusion. With the new philosophy and policies pertaining to micro credit, micro finance institutions (MFIs)2 such as Self Help Groups (SHGs) have emerged and they now have a strong footing in the developing countries such as Bangladesh, India etc.

Micro finance still plays a modest role in India. At the All India Level less than 5 per cent of poor rural households have access to micro finance (as compared to 65 per cent in Bangladesh) with significant variation exists across the states.

The key factors that can drive success for MFIs are robust systems, and processes and efficiency and productivity levels, maintaining asset quality, prevention of credit losses and capital erosion and remaining adequately capitalized to fund growth plans.

12. References

1. Dynamics Of Microfinance In India: The Road Towards Rural Development available at: http://www.youthkiawaaz.com/2010/11/dynamics-of-

microfinance-in-india-the-road-towards-rural-development/

2. Financial Inclusion and Microfinance in India: An Overview available at: http://ssrn.com/abstract=1089680

3. Ghosh, J. (2013). Microfinance and the challenge of financial inclusion for development. Cambridge Journal of Economics, 1-17.

4. Micro Financial Institutions available at: http://www.microfinanceinfo.com/micro-financial-institutions/

5. Micro Credit in India: Overview of regulatory scenario available at: http://www.vinodkothari.com/Micro%20Credit%20in%20India%20-

%20Overview%20of%20the%20Regulatory%20Scenario.pdf

6. Micro finance available at: http://ssrn.com/abstract=1667161

7. Micro Finance in India and Millennium Development Goals : Maximising Impact on Poverty available at: http://www.aptsource.in/admin/resources/1273817616_misra.pdf

8. MICRO FINANCE: The Pillars of a Tool to Socio-Economic Development available at: http://ssrn.com/abstract=955062

9. Micro-finance and Its role in India available at: http://ssrn.com/abstract=1697251

10. Microfinance in India: An Overview of Microfinance and SWOT Analysis of Microfinance available at:http://ssrn.com/abstract=1747874

11. Raj. P. C. (2012). Financial Inclusion in Rural India: The role of Microfinance as a Tool. Journal of Humanities and Social Science, 2 (5), 21-25.

12. Sa-Dhan releases Bharat Microfinance Report 2011 available at: http://www.microfinancefocus.com/sa-dhan-releases-bharat-microfinance-report-2011

13. Shankar, S. (2013). Financial Inclusion in India: Do Microfinance Institutions Address Access Barriers? Journal of Entrepreneurship Perspectives, 2 (1), 60-74.

14. Shetty, N. K. (n.d.). The Microfinance Promise in Financial Inclusion and Welfare of the Poor: Evidence from India. working paper , 1-21