



Microfinance Institutions In India – A Comparative Study of Developments and Challenges Faced by Mfi's

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ABSTRACT-

The planning process in India is centered on the premises of the triledown theory which emphasizes that benefits of development shall filter down to all sectors generating equality and empowerment . Microfinance refers to small savings ,credit an insurance services extended to economically disadvantaged segments of society. It is emerging as a powerful tool for poverty allivation in India. This working paper tries to outline the prevailing condition of the microfinance in India in the light of its emergence till now. The prospect of microfinance is dominated by SHGS (self help groups) banks linkage programmes .Its main aim is to provide a cost effective mechanism for providing financial services to the poor. This paper discovers the prevailing gap in functioning of MFI'S such as practice in credit delivery ,lack of product diversification ,customer overlapping and duplications, consumption and indivisual loan demand with lack of mitigation measures, less thrust on enterprise loans ,collection of savings, loans and highest interest rates existing in microfinance sector. All this clear syndromes which tell us that the situation is moving without any direction. This paper finally concludes with practicable suggestions to overcome the issues and challenges associated with microfinance in india.

KEY-WORDS - Microfinance; SHGS; MFI'S; NABARD; SIDBI

INTRODUCTION-

Microfinance is the means by which poor people convert small sums of money in to large lump sums (Rutherford 1999).Traditionally banks and lending institutions do not lend money to low income indivisuals. The reason being

- Lack of information about indivisuals
- Colletral
- High transaction cost of processing

Microfinance provides a solution for the above problem. The goal's of MFI'S are –

- Eradicate extreme poverty and hunger
- Achieve universal education
- Promote gender equality and women's empowerment.

- Combat diseases
- Developing entrepreneurial spirit.

The products offered by microfinance institutions are savings ,insurance ,pentions , loans, etc. According to a recent survey by the world bank ,nearly one third of the world's poor live in our country of which 40% are financially illiterate and many of absolutely no access to the benefits of the financially organized sector. Mohammad yunus (1988) has aptly stated his findings that the primary cause of poverty is the inability of the economy to capitalise human capabilities effectively and the presence of these MFI'S has been able to generate value in society ,improved



livelihood ,opportunities in rural areas through provision of adequate capital for micro interpreneurars worked towards mitigation of risk through insurance and insured smooth consumption patterns.

According to the definition of the ILO “Micro finance is an economic development approach that involves providing financial services through institutions to low income clients”. The history of microfinance in india can be traced back to the 1970’s when an urban cooperative bank called the Shri mahilla sewa sahakari bank was formed with the primary aim to provide banking services to the poor women working in unorganised sectors and at present it has risen up to be a multi million dollar industry with organisations as SIDBI,NABARD and many leading private sectors bank devoting significant financial resources to ensure their sail.

OBJECTIVES OF THE PAPER

Microfinance has been able to create a buzz in present day due to their endeavour to empower the under privileged sections and women and based on the philanthropy of cooperation,equality and mutual self help.In light of its growing strature the paper shall focus on the following.

- Role payed by the MFI’S in ensuring financial sustainability of our nation.
- Recognition received by the MFI’S in india
- Challenges jeopardising the growth of MFI’S.

RESEARCH AND METHEDODOLOGY

The research used in the paper is discriptive in nature ,which discribes a state of affairs as it exists in the present, where the researcher has

no control over the variables and can only report the events as have happened or are happening. Various secondary data magazines ,news papers, research articals ,reffered journals and books have been studied used for the collection of the data.The method implementing for collecting primary data were observation ,telephonic interview and distribution of questionnaire In the different microfinancial institutions.

LITERATURE REVIEW

There are lot of litereture on oppurtunity and challenges of micro finance institution across the world, through related topic ,one such study done by **Emerlson mooses (1)** has studied that micro finance has emerged as a catalyst of rural development especially in the over populated country like India. **S.Sarumathi (1) and Dr.R.K.Mohan (2)** found that microfinance brought phychological and social empowerment .Impact of microfinance is appreciable in bringing confidence , courage, skill development and empowerment .**Devraja T.S. (3)** has studied the India’s achievement of the MDG of halving the population of poor by 2015 as well as achieving a broad base economic growth also hinges on a successful poverty allivation strategy. **Mr.Nikhil (4)** considered that the microcredit moment has proved that it is possible to deliver financial services to poor people living in rural areas at a large scale free from any reliance or subsidies . **Manisha Raj (5)** in the research paper entitled “Microfinance institutions in india and its legal aspects” states that microfinance institutions in india have been proved a very important financial wing to incorporate the poor in the financial sector. Now on the other aspect like the challenges faced by the

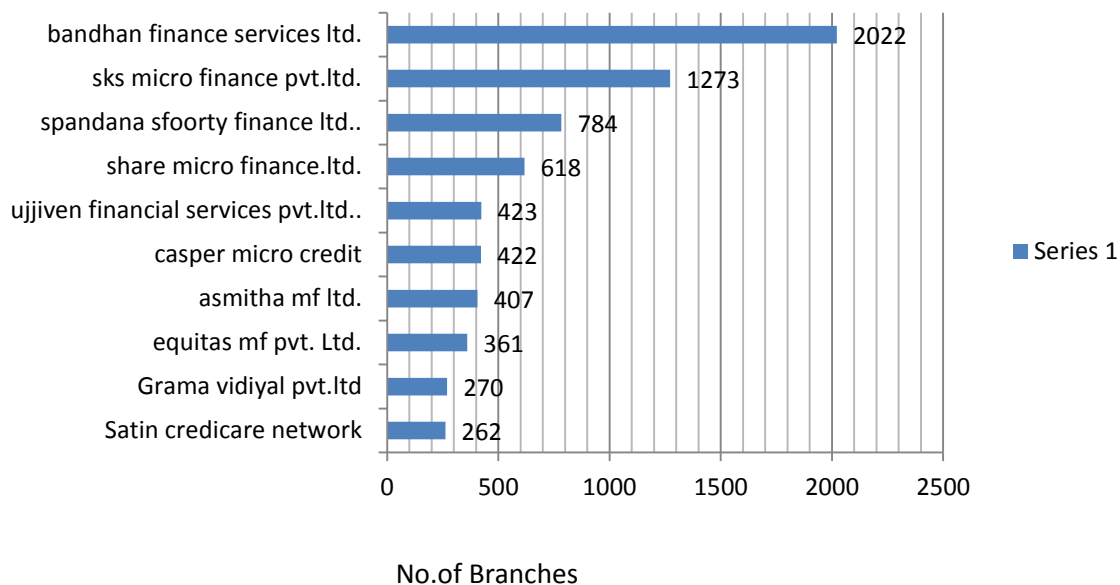
microfinance institutions. **Dr. Sidhanta** (6) and their co-authors found that the microfinance delivery involves macro and micro challenges. The macro challenges faced by MFI'S include the inaccessibility of the microfinance services to the rural poor ,the capital inadequacy of the MFI'S the demand supply gap in provision of micro credit and micro savings and the lack of women orientation in marketing, evaluation, and delivery of microfinance .The micro challenges include the inability to reduce the high transaction cost involvement in delivering microfinance, the non availibility of documentary evidence ad colletral among majority of rural poor or money lenders and lastly the problem of repayment tracking where lending is not based on documentary evidence. **K. Murlidhara Rao** (7) found in his paper that private MFI'S in India ,barring a few exceptions ,are still fledgling and are therefore unregulated .**Johnathan Morduch** and **Stuart Rutherford** (8) in his study

“Microfinance analytical issues for India states that the microfinance movement is thus striving to match the convenience and flexibility of the informal sector ,while adding reliability and the promise of continuity and in some countries it is already doing this on a significant scale.

DATA- PRESENTATION

Data 's are collected through different microfinance institutions running in 7 different cities .Here is a list of 10 top MFI's in India according to survey of 2015-2015 :-

1. Bandhan financial service ltd.
2. SKS microfinance ltd.
3. Spanda
4. na sfoorty finance ltd.
5. Share micro finance ltd.
6. Ujjain financial service pvt.ltd.
7. Cashpar micro credit
8. Asmitha micro finance ltd.
9. Equitas mutual fund pvt.ltd
10. Grama vidiyal mutual fund ltd.
11. Satin credicare network ltd.



Top 10 MFI'S in terms of branches network



CRITICAL ANALYSIS :

Microfinance enterprises as operate in India are categorised in to 3 types :

-the non profit MFI's – societies , public, trusts, Nonprofit companies,

-the mutual benefits MFI's –cooperatives registered under state or National acts, Mutually aided cooperative societies and,

-the for profit MFI's –NBFC's , producer companies, Local area banks.

Today the top 5 private sector MFI 'S reach more than 20 million clients serving in every state in India. And have been revolutionary in contributing towards upliftment of the financially weak thereby channelizing their economic potential. According to a recent survey conducted by the FORBS magazine 7 out of the top 50 MFI's operating in the world are native to india , and have been doing pioneering work since their inception. These are : Bandhan Micro credit finance o f India ,Sadhana microfinance society, Grameen koota , Sharda'S women association for weaker section , Asmitha microfin ltd. ,SKS microfinance pvt.ltd. Millions of poor are members of thousands of SHG's at present across india , which provides an important way to balance the reach of the rural poor at low interest rates and massive reach. Recently , some rural banks have been entrusted the job of nursing the SHG's and have been designated as self help promoting institutions (SHPI's) and the facts are available in public domain.

CRISIL provides risk assessment and diagnostic services to measure , manage and to mitigate the risk of MFI's and have encoded an 8 pointer median grade ranging from mFR1 (best practice)to mFR8 (least practice) .according to the data available for CRISIL ratings for year endings 31st march 2009 , about 47% of MFI's qualify for

a grade of mFR4 and above ,which reflects a satisfactory performance level w. r. t. quality of management board , financial performance and stability in funding. However , no MFI has qualified for the mFR1 grade.

INTERPRETATION:

The basic strength of all these MFI's in the fact that they have a massive reach and appeal in the unreached sectors , and found great support and assistance from the area locals of places where they operated from as well as the government. Cheston and Kuhen (2004) have opened in their research that MFI's have been very successful in reaching out to the women who on becoming financially independent have found increased respect and better relationship with extended families as well as in with laws, which along with economic progress has catered to a social cause itself. Due to their strong presence and wide acceptability , these have found great patronage even from the private sector which has formed strong economic liaisons with them. It is evident from the fact that many private sector banks and other financial institutions have been actively disbursing financial resources to ensure smooth working of these MFI's . Moreover , these have also been favoured by the private sector due to the customer credit evaluation mechanism adopted by these institutions which strengthens the risk. The presence of this parallel unorganized sector has thus served as a catalyst in channelizing funds from the organised financial sector to the financially deprived sectors thereby tapping their growth potential ,at the same time aiding micro financial penetration of the banks.

CONCLUSION AND SUGGESTIONS:

Many empirical studies have debated the impact of micro finance in poverty alleviation programmes and stated that they not have lived up



to their expectations. It is true that benefits of microfinance extend majorly to what can be termed as “upper poor class” and the benefits do not actually trickle down to the poorest of the poor. So, we need a giant leap in MF activities to meet the herculean task of alleviating poverty.

Presently the MFIs do not follow a standardised accounting code which makes their accounts highly leveraged. The biggest components of microfinance are the saving deposits (unincorporated MFIs aren't allowed to access), government subsidies (massive competition comes from the panchayats which claim subsidies and misappropriate them), and interests charged on loans given to poor (which again is a political sensitive issue, with interest ceilings fixed) all of which have made them bear financial suffocation. So, we desperately need to revitalise them through serious commercial orientation.

Apart from making the MFIs commercially viable, there is another hurdle to cross that is to develop skills and expertise of the borrowers so that the credit disbursed can be successfully channelized. Also there is growing need for development of infrastructure and marketing facilities in the absence of which success of these units can't be ensured. Thus, inculcating financial discipline among people, the MFIs along with development of tertiary sector are prerequisites for tapping the full potential of the economy.

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