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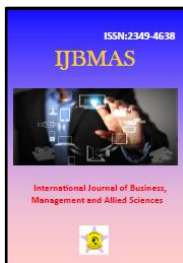
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A STUDY ON MICROFINANCE SECTOR PERFORMANCE IN INDIA

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ABSTRACT

The concept of microfinance had been explained in this study. The benefits and pitfall with microfinance for clients are described. The initiatives by NABARD and support of RBI for microfinance sector had been described. The suggestions have provided for better repayment schedules for clients who access loans through microfinance institutions.

Keywords: microfinance, loans, micro credits, self help groups, banking, financial services

Introduction

Microfinance is about giving unsecured loans for poor people in the society. Microfinance had motivated entrepreneurs thereby creating employment generation. Microfinance had provided credit and cash to poor people in rural areas through various schemes. Recently Government had implemented “financial inclusion” which provides financial services to every eligible individual by opening a bank account in a formal way. The aim of microfinance is not only to help the poor to meet their immediate financial needs but also help them for generation of permanent financial independence.

When global economy was facing economic downturn during the year 2008, India had experienced economy growth and microfinance might be one of the factors for it. Indian microfinance had experienced ups and downs but it had made poor people to access financial services in a formal way. People could become self sustainable if they are able to access financial services during emergency and it had been possible with microfinance.

Research Objectives

1. To understand and describe about micro financing in India.
2. To know the relationship between Government schemes and microfinance operations in India.
3. To provide suggestions for better performance of microfinance institutions.

Literature Review

Microfinance helps people to overcome financial issues therefore it can be referred as social work (Widyaningrum, Bhat, & Lee, 2017). According to Krenz et al 2013) women empowerment has an association with “credit-plus” from the perspective of microfinance in India. Microfinance stood out, until recently, as one of the most innovative and promising of development interventions of recent times in South Asia and worldwide (Halder & Stiglitz, 2016). Microfinance had protected poor people from greedy money lenders and it has been possible with liberalization of banking sector in India (Lokhande, 2009).

Millions of households in remote areas are able to meet to their financial needs for various purposes through microfinance (ASSOCHAM, 2016). According to Tripathi (2014) micro finance support the poor rural people to pay its debt and maintain social and economic status in the villages. The banking sector had played a vital role in providing microfinance for example SBI has been an active participant in the microfinance sector since 1992, when the National Bank for Agriculture and Rural Development (NABARD) launched the pilot phase of the SHG-Bank Linkages program (ICMR, n.d.). During 2010 in Andhra Pradesh microfinance system had experienced a huge crisis and political environment had also negatively impacted microfinance initiatives (Mader, 2013).

Microfinance is also helping poor to build their own house and it leads to economic development because 'Housing for All' is a national priority (Manoj, 2010). Shetty (2012) had explained the importance of coordination between Reserve Bank of India (RBI) and NABARD for attaining the objective of microfinance system in India. Basu and Srivastava (2005) had explained about how microfinance can be made accessible to poor people in rural areas in India. Microfinance had created women empowerment and they are able to female financial autonomy. (Guerin, Kumar, & Agier, 2013).

From the perspective of repayment schedule microfinance institutions are implementing weekly after disbursement of loan but a more flexible schedule helps in reducing the defaulters list (Field & Pande, 2008). According to Field et al (2012) microfinance clients repaying monthly were 51 percent less likely to report feeling "worried, tense, or anxious" about repaying, were 54 percent more likely to report feeling confident about repaying, and reported spending less time thinking about their loan compared to weekly clients. The frequency of repayment can worry and it leads to health issues in the long term.

According to Parik et al (2006) since people from rural areas consume microfinance services in India mobile phone with camera could be the best tool for capturing and documenting the information. Due to insufficiency of power, internet and transportation system Management Information System (MIS) tools cannot be used in remote areas. However in future there is scope for internet access in rural areas because of infrastructure development initiatives in India. According to Ghosh (2013) microfinance concept had become a silver bullet for resolving poverty problem in India but it could not eradicate the issue. Hudon (2008) had explained the norms and values for microfinance operations in India and stated that not-for-profit organizations had positively helped in creating ethical values during microfinance transactions.

Research Methodology

This study is purely dependent on secondary data and various journals, books and electronic sources have been reviewed. The information related to various schemes has been procured from government websites which are authentic. After analyzing the secondary data the information related to research objectives has been presented at the end of this research paper. The major limitation is that schemes related to microfinance are dynamic in nature but however enough care was taken to explain about standard schemes.

Microfinance Performance

Every individual had been covered with formal financial transactions due to microfinance institutions in India. Earlier people used to depend on money lenders by keeping gold, property documents and other values for getting capital but now government is directly providing loans. Sometimes the loans given to poor are waived for various reasons. Women are able to establish small shops or tiny businesses and able to meet financial needs without depending on others. The male domination had reduced to a larger extent with intervention of microfinance schemes.

The borrowers in microfinance sector can get more than 50,000 INR per individual. The repayment schedule is explained when the amount is disbursed. There is scope that in future a borrower can get more than one lakh and these limitations are decided by Reserve Bank of India from time to time. The interest rate for microfinance is very low when compared with rates implemented by money lenders or pawn brokers. National Bank for Agricultural and Rural Development (NABARD) had played a vital in providing a platform for microfinance institutions, rural people, banks and other stakeholders to coordinate with other. NABARD had initiated self help groups (SHG), women self help groups (WSHG), joint liable groups (JLG) and Eshakthi for

accelerating the growth of microfinance sector in India. In recent years government had implementer many schemes through NABARD.

Suggestions

The repayment frequency especially weekly schedule will create stress on the borrower. There should not be any fine for late payment because poor people are accessing microfinance loans and they may not have capability to pay fine. When people get loans through self help groups they may undergo stress due to peer pressure for payment of loans. Hence there must be flexibility in payment of loans. If any individual shows irregularity in payment then they must not be given loan next time. Sometimes people may lose their brand image if they could not pay the loan as per schedule but they must not be harassed.

When borrowing money people may have positively mindset to make repayment as per schedule but to environmental factors sometimes it might be delayed. For example a farmer might be thinking of harvesting but due to heavy rains the crop may get damaged and it is natural disaster. Therefore microfinance policy may be redesigned so that it will not create any kind of stress on the borrower. It is natural that things may not go as per planning therefore fixing repayment for poor people should be avoided to a greater extent. Even though microfinance loans resolve short term money problems but repayment according to schedule may cause long term health issues for clients due to stress.

Discussion and Conclusion

Microfinance eliminates poverty for a short period of time and small capital like less than one lakh may not resolve issues in the modern world. It is better to solve the issues of poor people like building a house, giving insurance to crop and seed capital for business rather than giving cash and asking them to make repayment under tight schedules. At present the value of one lakh had got reduced because lifestyle of people had drastically changed in the recent decade. The farmers should be given seed capital regularly for investment in agriculture without repayment.

Future Research

The list of schemes by government towards microfinance should be analyzed. The satisfaction of clients or borrowers with regard to various microfinance loans or schemes should be studied by future researchers. The impact of repayment stress on clients needs to be studied. The benefits of financial inclusion and digitization by government on micro finance sector could be studied by future researchers. Is microfinance helping rural poor only or it is also helping urban poor can be analyzed. The impact of financial freedom of women due to microfinance can be analyzed by future researchers.

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