GE-International Journal of Management Research
ISSN (O): (2321-1709), ISSN (P): (2394-4226)
Impact Factor- 5.779, Volume 6, Issue 1, January 2018
Website- www.aarf.asia, **Email** : editor@aarf.asia , editoraarf@gmail.com

TRENDS IN MICRO FINANCING

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ABSTRACT

*“**Microfinance** is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.” The today use of the expression micro financing has it roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammad Yunus, where starting and shaping the modern industry of microfinancing. Shore bank was the first microfinance and community development bank founded 1974 in Chicago . Financial services for poor people are a powerful instrument for reducing poverty, enabling them to build assets, increase incomes, and reduce their vulnerability to economic stress . But it has been observed that more than 80 % of households havebank accounts in high-income countries, compared to well below 20 % in low-income countries. In countries like Bangladesh or Sudan, that numberhovers just above zero The rapid growth of the industry over the past 15 years has reached approximately 130 million clients according to recent estimates. Yet microfinance still reaches less than 20 percent of its potential market among the world’s three billion or more poor. The World Bank Group is working with private microfinance institutions and stakeholders to incorporate responsible finance practices into all aspects of business operations. When done responsibly, private microfinance can have significant development impact and improve people’s lives.*

Keywords:-poverty, economic, development, financing, institutions

1. **Introduction**:-

“I would say that I did something that challenged the banking world. Conventional banks look for the rich; we look for the absolute poor. All people are entrepreneurs, but many don’t have the opportunity to find out that” -Mohammad Yunus (founder of Grameen Bank)

“ The poor stay poor, not because they are lazy but because they have no access to capital.“ – Laureate Milton Friedman Microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge. And while the lack of financial services is not just a sign of poverty, today it is looked as an untapped opportunity to create markets, bring people in from the margins and give them the tools to help themselves." – Kofi Annan (Sec. General of UN)

Micro finance is emerged in need of meeting special aim to empower under- privileged class of society. The principles and foundations of Micro Finance are founded on the philosophy of cooperation and its core central values of equality, equity and mutual self-help. Microfinance is a tool against poverty by enabling the beneficiaries to create sustainable activities to increase their incomes, reduce external shocks ,improve the living conditions of entrepreneurs and of their families and empower people and mainly the women and the youth.

According to 2011 data from the World Bank, an estimated 2.5 billion working-age adults globally—more than half of the total adult population—have to a life without access to the types of financial services we take for granted. The 1.5 billion people between the ages of 12 to 24 in the world today represent the largest number of youth ever on the planet. Of these, 85 percent, or 1.3 billion people, live in developing countries (World Bank 2011).Although the youth population is declining in East Asia and Central Europe, the youth population is expected to grow in Sub-Saharan Africa for the next 40 years. In 97 developing countries, half of the population is 25 years of age or younger. Worldwide, 47 percent of the unemployed are young people . Most young people in developing countries like India do not have access tothe financial services and education that would help them to be productive, engaging and successful citizens in their economies.

India falls under low income class group according to World Bank. It is the second populated country in the world and around 70 % of its population lives in rural area . 60% of Indian people depend on agriculture, consequently there is chronic underemployment and per capita income is only $ 3262 in 2006 . Result was severe poverty conditions , low rate of education, low sex ratio and exploitation. According to Reserve Bank of India, at that time about 51 % of people house possess only 10% of the total asset of Indiawhich result in low production capacity both in agriculture which contribute around 22- 25% of Gross Domestic Product and manufacturing sector . Rural people had very low access to institutionalized credit due to non-involvement and participation of commercial bank. India is said to be the home of one third of the world's poorclass . About 87 percent of the poorest householdsdid not have access to credit. The demand for microcredit was estimated at up to $30 billion; the supply was less than $2.2 billion combined by all involved in the sector. Microfinance had been present in India in one form or another since the 1970s and is now widely accepted as an effective poverty alleviation strategy .

2. Review of Literature

Robert Peck Christen (2006) in his paper "Microfinance and Sustainable International Experience and lesson forIndia", he articulates the changing general perception of bankers, that SHGs are profitable clients or bank.

Lanmdau Mayoux's study (1998) on Participatory Learning for Women's Empowerment in Micro Finance Programs (IDS Bulletin,Vol. 29 No.4, 1998) proposes a participatory approach for integrating women's empowerment concerns into ongoing programs learning, which itself would be a contribution to empowerment. Micro finance programs for women are currently promoted not only as a strategy for poverty alleviation but also for women's empowerment.

Dr.C.Rangarajan (2006) in his topic 'Microfinance and its future directions' in the introductory part of the book, outline the evolution of SHG through microfinance evolve through in three stages. First, to meet survival requirement need, in the second stage is to meet the subsistence level through investing in tradition activities and in the final stage by setting up of enterprises for sustainable income generation.

3. Objectives of the study

This paper puts light on what is the trend of micro financing is there in Indian after comparing few some years. It also depicts How far India has come in the micro financing and major changes it has observed in this area. This paper puts thurst on the changes in main constituents and structure of micro finance over time . It gives answer to the following questions:-

1. Which areas in micro finance has observed changes??
2. How much change is Micro finance sector has occurred for last few years?/
3. What impact of these changes have seen over Micro Finance Industry??
4. A little focus towards betterment of this sector.

4. Research Methodology

The study is basically based on secondary data. The secondary data is collected from various sources like journals, books, manuals, and reports of the state concerned for literature part. Data collected from secondary sources have been analysed for support of my topic. The contents taken from various sources have been verified to the best possible extent.

5. Trends and Findings:-

Indian Microfinance Sector has witnessed a tremendous growth over the past 17 years. As of March2016 , the quantum of 60,000 crore credit made available to the poor and financially excluded clients and the number of clients benefitted is close to 40 million . The outreach this industry grew by 8% and loan outstanding grew by 31% over the last year.

This sector reported an overall growth of 38% in the financial year 2015-16 as compared to 40% in financial year 2016-17 with the market size nearing Rs. 1.4 trillion (including Bandhan Bank) as on March 31, 2016. This growth was driven by an impressive 72% growth in portfolio of MFIs, SFB licensees and banks, while the SHG bank linkage programme grew at only 11% in year 2016-17 . The growth was supported by new entrants, increase in client outreach and higher ticket sizes as well as continued fund flow to the sector.

We can observe an interesting trend emerging in the microfinance investment landscape. The interest of investors is now focused on evaluating MFIs on the following matrices:

a) Geographic and product wise diversification

b) Promoter background in the industry and strong, supportive management team

c) Strong and sound back end processes built on solid technology platform

d) Funding sources from diverse areas

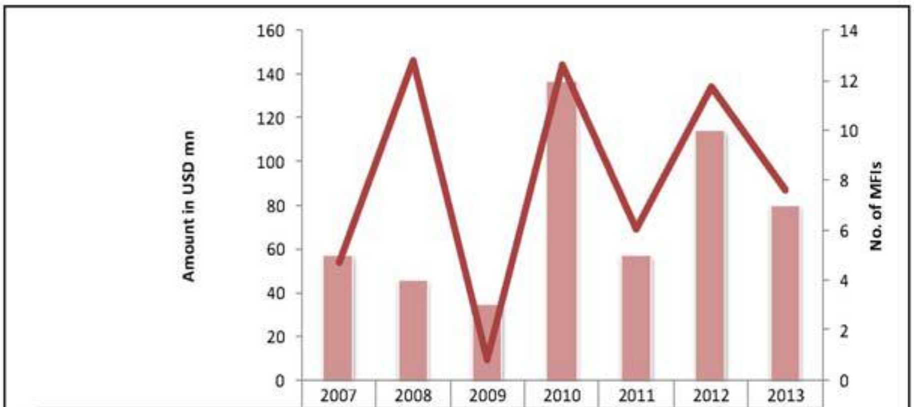
e) capability to acquire and integrate smaller MFIs

f) Aimimgat the client centric credit plus activities

While the above points remain generic to investment evaluations prior to October 2010 as well,what has changed is the increased focus of investors in evaluating MFIs these days.

A. <u>Equity to Debt Financing</u>

The strong growth shown by Micro finance sector supported by increased flow of funding from debt providers leads us to believe that the sector is well poised for more equity infusion in days to come .Looking at the trends from 2007-2013 of equity disbursement for Micro credit we observe that



	2007	2008	2009	2010	2011	2012	2013
No. of MFIs	5	4	3	12	5	10	7
Amount invested (in USD mn)	53	146	9	144	69	134	87

The year 2010 was the year of crisis in Microfinance and hence, is a year of dichotomy where in microfinance crescendo not only reached its peak but also had a dramatic fall. In India, year 2010 was a big changing point in MFIs and there is much discussion about the growth of microfinance at that time because it caused a repeat of the 2010 crisis, when the sector grew fast and there were allegations that multiple lending led to the overleveraging of clients. Having largely recovered from the 2010 crisis, the growth of microfinance today creates a new set of challenges. The findings given by <u>Inclusive Finance India Report 2016</u>:-.

- 22 percent growth in branches
- 38 percent growth in staff strength
- 44 percent growth in number of clients
- 45 percent growth in number of loans

indicate that the loan portfolio grew at a relatively higher rate than branches, employees or clients. This means more debt flows within the same client segments, lead to overleveraging, which ended up in a large-scale default. Rating companies such as ICRA and Crisil expected about 35-40% growth for MFI loans in the next three to four years. Crisil estimated that MFIs MFI loan assets to reach Rs 35,000 crore by March 2015 and Rs45000 crores by March 2016. So much rely on loan disbursement in this sector lead Indian economy to several problems like increase in growth of NPA .

B. <u>Rural to urban concentration</u>

The scene of MFIs has changed in region wise too. MFIs have shifted their focus from rural pockets to urban India. For the first time in its 25-year history, Indian MFIs have more urban clients than rural ones. The latest data, compiled by industry self-regulatory organization Sa-Dhan, shows 67% of the 37 million MFI customers live in urban India.The share of rural customers was 69% in fiscal year 2012. That dropped marginally to 67% in 2013. In the following two years, the share of rural customers has declined drastically. In 2014, rural customers constituted 56% of the total. It dropped further to 33% in the following year in 2015. This busts and shattered the myth that Indian microfinance is predominantly a rural phenomenon, very different from what we see in Latin America and large parts of Africa and Asia.The rise in urban clients of MFIs also tells us thatprobably banks in India have a cultural problem and they don't like small borrowers, be they in rural or urban India. The official reason for not reaching out to small borrowers are many which are still ranging from higher transaction costs and lack of reach to the absence of a competent rural cadre.Some of the leading MFIs have changed their focus on creating livelihood for consumer to asking how much from the poor family's purse they can earn by providing loans and consumer goods. This scenario has brought a great transformation in the purpose for which MFIs were originally initiated and made them stand in the row of profit earning businesses

C. Women empowerment

The outreach that the Indian microfinance industry has achieved, through both the microfinance institutions (MFIs) and the Bank-Self Help Group (Bank-SHG) linkage model over the last 10 years, is impressive..MFIs cater to over 55mn people in India, with 90% of them being women . The total market potential is to have a reach of about 275-300mn people in India .. I believe this is the main accomplishment of the Indian microfinance sector over the last 10 years.

D. Rely on Foreign Investment

MFIs have been found to be more dependent on foreign equity sources now. Though Foreign investors have neither capabilities nor interest in supporting Indian economy but they are aiming to earn profits just by dispensing small loans . The share of foreign holding in Indian microfinance institutions has risen to nearly a third from just about a fifth a few years ago, data from rating companies show.Overseas investors are keen in taking exposure to MFIs and, thereby, indirectly financing entrepreneurial drive of the country's economically backward population," says Chandra ShekharGhosh, founder of Bandhan. All the top 10 MFIs have a diversified mix of investors — from International Finance Corporation to private players like Michael & Susan Dell Foundation, Citi Venture Capital International, Caspian, Sequoia capital, and Legatum. These investors have high stakes in the India micro 2,000 crore in capital in the past three years and they may need about Rs 1,800 crore of equity over the next two years, forecasts Crisil.

6. Conclusion:-

Future is nurtured in the womb of the present. Many Tremendous changes are being observed in technology for the financial sector, that can alter the way micro finance is practiced. There is a great effort going on towards pan India coverage. It would not be wrong to assess that in the next20 years, micro finance could become the main conduit for channelizing financial and other resources in the informal, emerging into a highly product ivesector of the economy, through a long lasting partnership between the formal banking system and well governed MFIs. Microfinance would be seen as a provider of services from concept to credit for economically active people at the lower economic group of the society. There is need to infuse more equity domestic capital in this sector to bring more fruitful results. When these investments are channelized in proper direction these can prove a game changer for indian economy. Careful research on demand for financing and savings behaviour of the potential borrowers and their participation in determining the mix of multi-purpose loans are essential in making the concept work

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