



MICROFINANCE OPPORTUNITY AND CHALLENGES: A THEORETICAL PERSPECTIVE

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ABSTRACT

The microfinance industry, also known as microcredit, financial services provided to low-income or unemployed individuals and groups that would otherwise not be able to afford them. Microfinance institutions mostly offer loans, with amounts ranging from 100 to 25,000, however many banks also offer checking and savings accounts, micro insurance products, and financial education. This study discusses the various challenges faced by microfinance, examine the performance and present scenario of microfinance in India and study the impact of covid-19 on microfinance. This study based on secondary data will explore the basic concepts, theories and relations of microfinance by using internet searches, journal papers, magazines and banks report.

Keywords: - Microfinance, Covid-19, Micro-credit.

INTRODUCTION

Microfinance involves providing financial assistance in loans, insurance savings, fund transfers and training to small businesses and Entrepreneurs without bank accounts. Microfinance is a type of lending that gives modest loans to impoverished entrepreneurs in developing countries and people living below the poverty line. In the 1970s, Gujarat's self-employed women's organization (SEWA) established Sri Mahila Seva Sahakara Bank as an urban co-operative bank to serve the banking needs of underprivileged women working in Ahmadabad, Gujarat (Nasir, 2013). NABARD launched the Self-Help Group (SHG) - Bank Linkage Programmed (SBLP) as a pilot initiative in 1992, laying the groundwork for microfinance. The program was successful and became one of India's most popular models of microfinance. Microfinance has thus become a buzzword in the country (Sunil Kumar, 2016). Around 7000 microfinance institutions are estimated to exist worldwide, according to the World Bank. Microfinance institutions have been established to provide financial assistance to the poor. Microfinance does more than give small loans; it strengthens the economic condition of deprived sectors of society. Microfinance includes credit, security, savings, and other important financial services for the poor. Other services include training and counselling. Microfinance provides financial services to small firms and entrepreneurs who do not have access to regular banking and related services (Mayakkannan, 2020). Microfinance institutions are organizations that provide small-scale financial services to poor and low-income people, such as savings, credit, and other fundamental financial services, according to the United Nations. Non-governmental organizations (NGOs), credit unions, cooperatives, private commercial banks, non-bank financial firms (NBFCs), and parts of state-owned banks all fall under the umbrella of "microfinance institution (Islam, 2009). Microfinance is required in India because an estimated 350 million people live in poverty.

The poor's annual loan demand in the country is estimated to be over Rs 60,000 crore. Only roughly Rs 5000 crore has been disbursed across all microfinance programmers. Microfinance is only available to roughly 5% of the rural poor. Microfinance in India is critical to the country's development. It functions as an anti-poverty vaccine for those living in rural areas. Its goal is to assist economically disadvantaged communities in building great assets and securing income at the family and community levels. Microfinance is important in India because it allows small businesses to obtain money. In India, microfinance offers loans, insurance, and access to savings accounts. **(Legal service, 2022).**

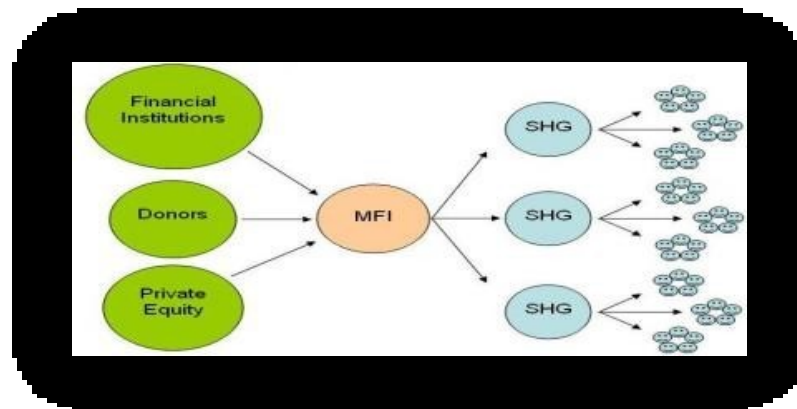


Fig: 1 Structure of microfinance

Source-Microinfo.com (Microfinance industry Structure)

REVIEW OF LITERATURE

Literature reviews on microfinance have identified a rising issues, needs, and challenges that have been faced by microfinance institutions for country's development and growth. These factors have been analyzed by multiple researchers.

(Seibel, 2005) This study examined financial types of assistance to low pay individuals is old. The casual financial establishments have been a part of numerous nations for quite a while, including Susus in Ghana and Nigeria, chit assets and Rotating Savings and Credit Associations (ROSCA) in India, mixed bags in West Africa, pasanaku in Bolivia, Hui in China, an artisan in Indonesia, paluwagan in the Philippines. So forth it is generally accepted that the casual financial establishments originated in the Nigeria going back to the fifteenth century. During the eighteenth century, these types of associations began developing in Europe, and in 1720 the first advanced asset focused on destitute individuals was established in Ireland. (Schwiecker, 2004)- This study discussed the brief history of microfinance During the 1970s, a change in outlook began to happen. In agricultural nations, the disappointment of sponsored governments or givers prompted establishments to fulfil the need for financial administrations. Business microfinance was first introduced by Bank Dagan Bali in 1970

Indonesia. (Emerlson Moses, 2011)-The study examines some opportunities and challenges of microfinance institutions worldwide, but only a few studies have been conducted on the topic. (Sekhi.V 2007)-This study described the Microfinance is a powerful tool to alleviate poverty. The only development tool that is financially self-sufficient is the microfinance model. After that, specific microfinance programs gained prominence in the drive field. Despite the industry's efforts for over 30 years, 80 percent of poor people lack access to microfinance.

(Chawla's 2007)- It was discovered that the greatest impediment to the poor's development is an Inaccessibility to credit and financial services, which are required for fostering sustainable livelihood activities. Later on, microfinance became popular as a means of meeting the poor's credit needs through and with the assistance of SHG groups. (Mahanta 2012)- This research found that microcredit lending is not the solution to the problem, but rather the start of a new age. If used correctly, it has the potential to work wonders in the realm of poverty reduction. It must, however, be used in conjunction with capacity-building programmes. It is the responsibility of the government to social and economic situations of the poor and oppressed improved. The fund is utilized for consumption and acquisition of nonproductive assets in the absence of any unique skills with microcredit clients. As a result, training programmes in handicrafts, weaving, carpentry, poultry, goat herding, masonry, beekeeping, vegetable gardening, and a variety of other agricultural and non-agricultural skills are critical. The government must take an active part in this. People with exceptional skills should be offered microcredit initially. To ensure the success of their microbusinesses, clients should be given post-loan and professional assistance. Microcredit can help to reduce the poverty if governments and MFIs work cooperatively.

(Laxmi Sunitha 2011)- Impact of Emergency and Microfinance on the Indian Situation After pioneering efforts by the government, banks, NGOs, and others, India's microfinance scene has reached critical mass. To assist the establishment of Micro-Finance Institutions (MFIs) and full their contribution to the economics growth and poverty alleviation, an effort might be made to train a cadre of new generation micro-credit leaders. It's time to build on the success of a paradigm that puts one state at the helm. When we unleash the entrepreneurial potential of the disadvantaged, India will be transformed in ways that we can scarcely imagine.

OBJECTIVE OF THIS STUDY

- To examine the performance and current scenario of microfinance in India.
- To explain the various challenges microfinance faces in India.
- To study the impact of covid-19 on microfinance.

RESEARCH METHODOLOGY

This is a qualitative research work that draws on secondary sources like, books, research papers, journals, magazines, the NABARD report 2021, and newspapers. This literature review research study attempted to explain the research goals and make additional recommendations.

RESULTS AND DISCUSSION

To examine the performance and current status of microfinance in India: SHGs can now obtain loans from SHG-BLP in addition to loans from their own Federations and NGO MFIs, since the system has expanded and matured. As of 31 March 2021, the SHG BLP programme had reached multiple milestones, with a total membership of around 112.23 lakh SHGs comprising 13.8 crore houses across India. The number of SHGs increased by 9.80 lakh in fiscal year 2020-21, resulting in a savings increase of '11325.56 crore. SHG savings with banks had reached an all-time high of 37477.61 crore as of March 31, 2021. In the fiscal year 2020-21, banks disbursed loans totaling 58070.68 crore. Banks' share of the overall portfolio outstanding was the greatest at 1,10,122 crore (44 percent). With a reach of 13.87 crore families, the SHG-BLP programme has proven to be a global success in terms of microfinance, giving social, economic, and financial empowerment to the rural poor, particularly women. Figure 2 depicts the year-by-year progress (2018- 19 to 2020-21) in SHG savings and credit linkage under the SHG-BLP, which includes an account of total SHG savings, credit disbursement, and credit outstanding. Those who fall within the NRLM and NULM categories. The rise of the MFI business has been equally encouraging. According to Sa-Dhan, the microfinance industry has a total loan portfolio of 2, 47, 839 crores as of March 31, 2021, with a year-on-year growth of 17%. The NBFC-MFIs' 79,115 crore (32 percent), Small Finance Banks' 37,724 crore (15 percent), NBFCs' 18,765 crore (8 percent), and Non-profit MFIs' 2,113 crore (1 percent).

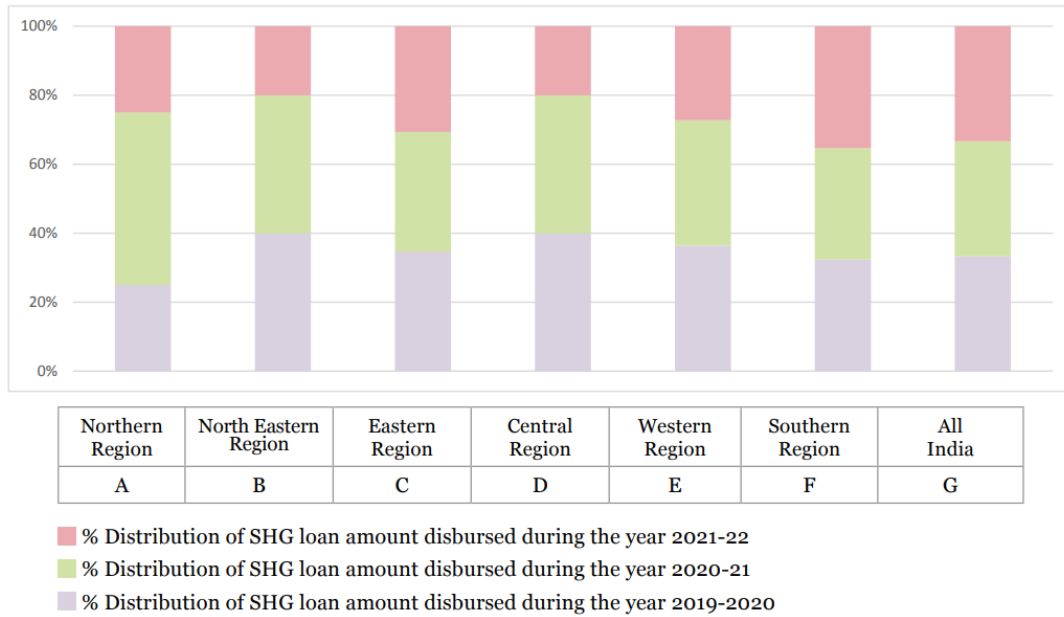


Figure 2: Progress of SHG BLP (2021-22)

Source: NABARD, Status of Microfinance in India Report, 2021-22

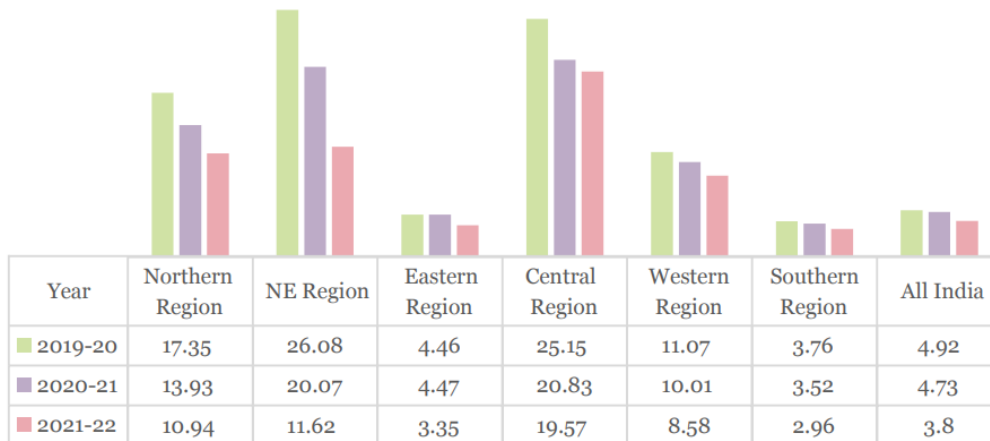


Fig 3: Region Wise Average Savings per SHG (Rs.)

Source: NABARD, Status of Microfinance in India Report, 2021-22

This figure shows in the fiscal year 2020-21, banks disbursed a total of 58070.68 crore to 28.87 lakh SHGs, compared to 77,659.34 crore to 31.46 lakh SHGs in the previous fiscal year. As a result, the number of loans disbursed to SHGs and the amount disbursed both decreased by 8.22% and 25.22%, respectively. The Southern Region received the greatest

payment of 37860.63 crore to 13.37 lakh SHGs in 2020-21, while the Northern Region had the lowest disbursement of 940.45 crore to 0.68 lakh SHGs. The credit disbursement in the Southern (-31%), Eastern (-16.67%), and Northern, North Eastern, and Central areas decreased year over year, while the credit disbursement in the Northern, North Eastern, and Central regions increased. Major states like Chhattisgarh, West Bengal, Himachal Pradesh, Jammu & Kashmir, Andhra Pradesh, Karnataka, and Maharashtra saw a significant drop, which could be ascribed to the pandemic's influence. In comparison to 2019-20 (₹ 246851), the average loan size per SHG in 2020-21 (₹ 201118) decreased by ₹ 45733. With the exception of the Northern Region, all other regions' average loan size per SHG has decreased. When comparing loan sizes by region for 2020-21, the Southern area has the largest average loan size, followed by the North Eastern Region and the Western Region.

Since 2014-15, NABARD has been providing financial assistance to MFIs through Long Term Refinance support. NBFCMFIs seeking refinance from NABARD must have a qualifying grading of MFR2/MF2 or higher, according to NABARD's current Refinance Policy. A unique way to unwind Villages number 1.67 million. Savings totaling Rs.8044 crore have been covered. Group-wise loan linkage increased to 53 percent from 38 percent, involving 30157 bank branches and 12139 MFIs and Federations. A bank loan of Rs. 37414 crore was obtained. As of 31.03.2021, the loan outstanding was Rs. 19783 crores. Shares in India, 19% of all SHG loans are o/s.

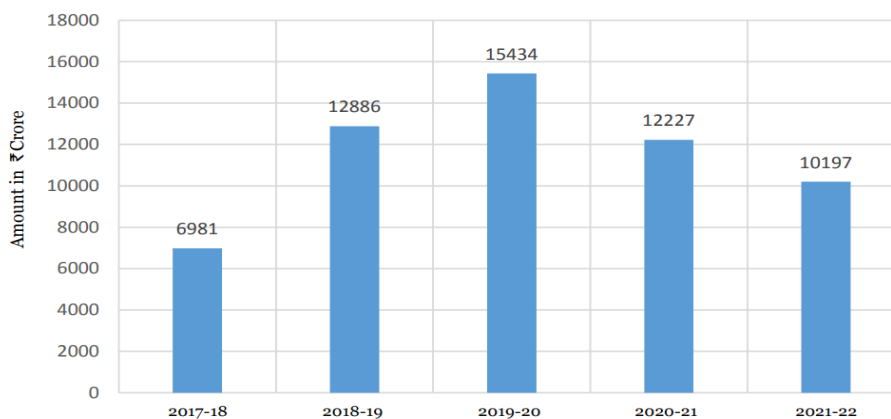


Fig4: Nabard Refinance to banks for SHGs lending

Source: NABARD, Status of Microfinance in India Report, 2018 to 2021.

Since 2014-15, NABARD has been providing Enrollments in the 1.01 lakh APY and other micro insurance plans Enrollment in the PMJJBY has reached 1.67 million people. PMSBY enrollments totaled 6.21 lakh. The North Eastern Region has received 2.38 lakh PMJDY A/C opened initiatives of Nabard for the microfinance sector 47. “For the MFI to be eligible for

NABARD's refinance, it must have been profitable for the previous three years out of the previous four. There are a few more requirements to meet. The grading agency must also be approved by SEBI or the RBI, according to the policy. In terms of progress under this refinance facility, in 2020-21, refinance to the tune of 4789 crore was disbursed to 29 MFIs, including 3519 crore to NBFC-MFIs under the Special Liquidity Facility. NABARD has offered this assistance to eliminate disruptions and ensure unobstructed credit flow to the sector due to the COVID-19 outbreak in an apt manner and understanding the operational problems faced by MFIs. As of March 31, 2021, the outstanding refinance to NBFC-MFI was '7241 crore' (NABARD, Status of Microfinance in India Report, 2018 to 2021).

CHALLENGES FACED BY MICROFINANCE IN INDIA

Despite the fact that microfinance plays an important role in the fight against poverty, it is plagued by a number of issues. This is because providing loans to the poor is a difficult procedure, and the industry is still in its early stages of development.

- **For a business activity to be successful, there must be a marginal profit:** - Organizations and institutions cannot exist without this, but often problems arise at the operational stages of microfinance businesses associated with charities (Sanjeeb2015).
- **Measuring MFIs' social performance:** - Performance cannot be measured with a specific tool to determine whether it is working and where it is not, what must be done.
- **A lack of customized solutions for the poor:** - Many impoverished and rural people are uneducated and have difficulty comprehending product regulations, policies, and features. As a result, a proper channel for customer satisfaction and problem resolution must be established (Namboodri2001).
- **The lack of clarity in MFI regulation:** - A microfinance bill is still pending. Making explicit MFI regulations and policies is a major task (Nagaraju, 2016).
- **Lack of customized solutions for the poor:** - microfinance institutions fail to grasp the diverse needs of micro entrepreneurs; Poor households are inappropriately targeted by microfinance programs. Mfis give time in the field with their clients and their businesses, then utilize that information to create personalized microfinance solutions for each micro entrepreneur. Huge enterprises dealing with large homogeneous client groups may benefit from generalized solutions, while microfinance providers must cater to the diverse demands of individuals in each micro market segment.
- **Lack of microfinance training for microfinance institutions:** - Working in the microfinance industry is not the same as working in the regular financial sector. Microfinance officers and volunteers.

- **Lack of information about microfinance investment opportunities and poor distribution system of microfinance institutions:** - “Microfinance providers in certain cities may be comfortable with their client base and see no economic reason (ignoring the social necessity to alleviate poverty) to expand their distribution system to reach the lowest of households. Second, micro entrepreneurs are dispersed across wide geographic areas, sometimes in remote locations, making them unreachable to microfinance institutions. This is a minor issue because, despite the fact that there are over 10,000 microfinance institutions around the world, they may be unaware of the presence and needs of specific micro entrepreneurs” (Vikkraman, 2012).

IMPACT OF COVID-19 ON MICROFINANCE

In context of the Covid pandemic, NABARD has launched a number of unique efforts to assist SHG members with health counselling and promotion, as well as livelihood support.

- The EShakti platform, which was used to deliver 40 lakh health-related SMS to SHG members.
- SHGs under the EShakti Portal are involved in the production of face masks, hand sanitizers, PPE kits, the distribution of vital items/grocery kits/vegetable hampers, the establishment of grain banks, and other activities. All of these initiatives have given SHG members more opportunities to earn extra money.
- Due to the COVID-19 pandemic and labourers' reverse migration to rural areas, MEDP, LEDP, and Capacity Building budgets were greatly increased to create a sufficient skill set for rural employment. The states where reverse migration is most likely to have an impact include Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh, and West Bengal. For 2020-21, the number of MEDPs has been tripled, and the number of LEDPs has been raised, compared to the previous year, to assist rural inhabitants in improving their talents and finding better professions (NABARD REPORT).

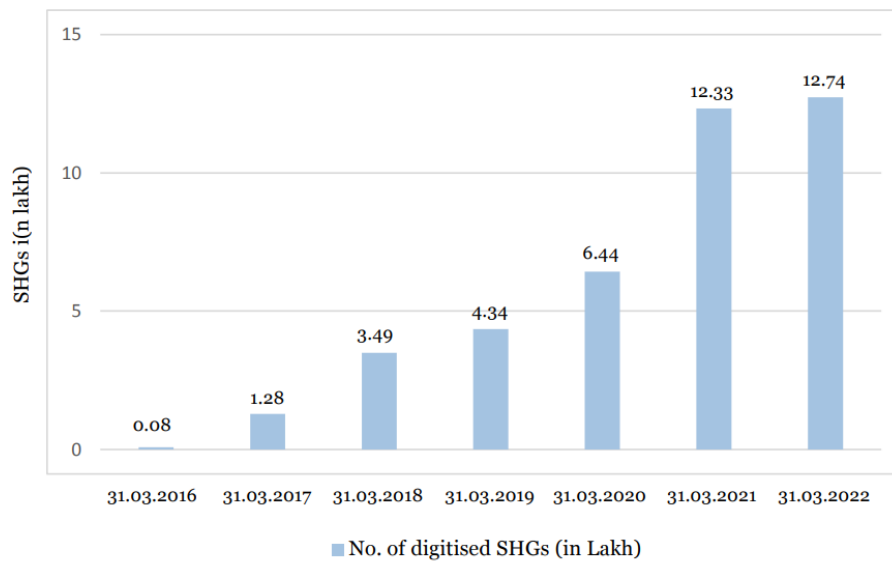


Figure 5: Progress made under Project EShakti

Source: NABARD, Status of Microfinance in India Report, 2018 to 2021.

In this figure Stakeholders have responded positively to the project, and it is implemented in 281 districts across the country as of March 31, 2021. Figure: 5 shows the evolution of digitalization over time. In 2016, Project EShakti started with 2 lakh SHGs and now has a total of 12.33 lakh SHGs. Despite the several Covid pandemic- related roadblocks, we expect an 88 percent rise in digitized SHGs in 2020-21 compared to 2019-20. By sending a grading report of any SHG based on its financial and non-financial data to all stakeholders at their doorstep, digitization overcomes problems like inadequate bookkeeping, multiple membership of SHG members, and unstable credit histories. The project, which is administered through a single website (<https://eshakti.nabard.org>) and two mobile apps (EShakti App and EShakti Tracker App), provides SHGs and their members with access to bank credit while also empowering them by providing mobile access to their own bank accounts and other information (NABARD REPORT).

FINDINGS

Despite appearing to be growing fast without any roadblocks, the study also reveals several challenges faced by Micro Finance. Microfinance beneficiary's need for a variety of saving avenues, the mobilization of these savings by MFIs, the need to create a regulatory framework for MFIs or to Provide financial support to MFIs as a regular source of funding, provide microfinance beneficiaries with lower loan rates by reducing the cost of resources and management, and protect MFIs when they enter new financial services like micro-leasing, insurance, and housing.

The globe is currently battling COVID-19 and its impact on global economic growth. The immediate policy issue, without question, is to jump-start the global economy. Economy The pandemic, on the other hand, has provided an opportunity. Chance for all parties to reconsider the situation policies, as well as budgetary and operational plans they've taken and advocated for a strategy so far. The Growth of microfinance was reduced because of COVID-19 in year 2019- 2020. After this, it was stable from 2020-2021 microfinance was grow at a faster rate.

Regulations and policies: microfinance rules and regulations lack sufficient clarity. As a result, most investors are hesitant to participate in microfinance opportunities. It is, therefore, necessary to develop appropriate norms and regulations to attract investors and ensure the scheme's smooth operation.

Infrastructure Supporting Facilities: microfinance successful implementation will necessitate the strengthening of supporting infrastructure for the market to take off. Microfinance want to we improve your infrastructure and quality of work.

Microfinance also needs to awareness about financial literacy among the population. Approximately 27.6% of its people between the ages of 25 and 44 are participating in microfinance through financial education, making India one of the most financially literate countries in the world.

CONCLUSION

Microfinance has become an essential part of national development over the last thirty years. Several large national development and philanthropic investments, as well as commercial funding have been committed. In particular, MFIs have increasingly become an intermediary between ordinary people and their savings. Intents appeared good, and ambitions were high. Initially, everything seemed so positive. Things seemed to be going well. Many pioneering MFIs reported being able to sustain a large number of jobs and income streams, local women were being empowered in ways never seen before, and a bottom-up development process was forming that could lift traditional local economies out of poverty and underdevelopment. The microfinance sector growing fast without any roadblocks but has also brought with it some challenges and issues. Some of such issues. Microfinance institutions have a poor distribution system, and there is a paucity of knowledge about microfinance investment prospects. In microfinance institutions, there is a lack of microfinance training for human resources. There aren't enough tailored solutions for the poor Due to a lack of clarity in MFI legislation, MFIs have a dual responsibility to be financially sustainable, sound, and development- oriented. There are some challenges associated with microfinance, but there are also several advantages, reduce poverty, help people to meet their financial needs, disburse quick loan under urgency, Promote self-sufficiency and entrepreneurship. COVID-19 adversely affected

the global economy and microfinance. The Growth of microfinance was reduced because of COVID-19 in year 2019-2020. After that, it was stable. From 2020-2021 microfinance was grow at a faster rate. In order for Microfinance to grow, they should improve their structures, policies, and regulations, as well as their distribution methods.

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