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The Emergence of Microfinance: An Overview

NIDHI NANDINEE
Research scholar, Department of Applied Economics and Commerce, Patna University, Patna, Bihar, nidhi.pkc@gmail.com

Abstract

Microfinance is essential for India's and the world's economic progress. This paper aims to study the evolutionary phase of microfinance in both a national and international context. The era of microfinance in India in this paper paves the way to understand the historical overview of Indian microfinance sector development. This paper considers secondary sources of data and is based on descriptive research analysis.Offering financial assistance to the underprivileged is a conventional idealism.Many unofficial institutions of credit exist in managing the operation in various Nations for many years.In the 1970s a new era of credit concept began to arise when Muhammad Yunus,a Bangladeshi economist first introduced the Grameen Bank or Grameen Bank Model concept.Grameen Bank model, now globally known as the 'grassroots' of microfinance model, has become a great strategy for uplifting the poor society and empowering women by reducing poverty and serving as the foundation of global Microfinance. It has granted around 2 million people loans totaling more than $2.1 billion. Today, Microfinance is considered one of the essential economic and social provisional waysto economically empower the disadvantaged section of society.

Keywords: Microfinance, Poverty, Empowerment,Economic development.

Introduction

Poverty is a Universal phenomenon though it has not any indicator to measure still it exists everywhere in the country whether it is under-developed or developing or developed country. 'Microfinance considers that disadvantaged individuals are huge reservoirs of energy and skills, giving untapped potential to expand markets, pull people from the limits, and equip them with the means to sustain themselves'. - **(Kofi Annan)-**

Md. Yunus defines microfinance as "giving access to financing means, to a maximum of poor people, by allowing them to use their capacities in favour of a durable development" (Yunus, 2003).**The RBI defines microfinance as** "Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counselling, etc". Therefore, Microfinance includes affordable credits, insurance coverage, savings, transfer services, and other financial securities. Microcredit access and efficiency may enhance the poor's quality of life (Bansal and Bansal, 2012).According to the Clute Institute International Business & Economics Research Journal (2009), the extensive microfinancing reduces severe poverty among microcredit borrowers.Inthe Microcredit Summit February 1997, Muhammad Yunus committed to providing 100 million of the world's poorer households mostly women—loans for employment and other financial and commercial services by 2005. Further, a campaign aimed to raise $21.6 billion is designed to achieve this objective.In India, SHGs, MFIs, and other methods offer microfinance. Poor individuals get microfinance services via a network of MFIs, commercial banks, co-operative banks, and RRBs.

Research objectives

1. To study the evolutionary phase of microfinance in an international context.
2. To understand the era of microfinance in India.

Methodology

Secondary data was used for this descriptive research article.

Evolution of microfinance: An international evidence

Microfinance is an integrated concept. Small, unstructured credit and savings organisations have operated for decades from Ghana to India and many more places.Formal lending and savings organisations for the poor have served people abandoned by commercial banks for years. It is considered that Nigeria's informal financial institutions began in the fifteenth century. The first lending fund for disadvantaged people was formed in Ireland in 1720. (Seibel, 2005). Although Grameen Bank's success influenced many more developed and developing nations throughout the country, there are some early microfinance concepts globally. It has been discussed below:

a) Ireland, 1700s–1800s (Irish Loan Funds)

Jonathan Swift, an Irish author, developed Irish Loan Funds in the 1700s to help Dublin's needy. His approach developed other independent charitable lending and deposit institutions. They were supervised by the "Loan Fund Board" by 1837, which operated 300 funds by the early 1840s in Ireland.

b) German Federation (Credit Unions) 1840s–1860s

In 1800 Europe 100, huge and formal savings and credit organisations emphasized on rural and urban poor. Credit unions were invented by Friedrich Wilhelm Raiffeisen and his attendant. In 1846 to 1847, he created "Verein für Selbstbeschaffung von Brod und Früchten" (Association for Self-Procurement of Bread and Fruits). In 1864, he formed the first cooperative lending bank, which became the first rural credit union. He bought flour and prepared bread using donations from others. He loaned bread to the needy poor. following this concept in 1847, Germany formed credit cooperatives that serviced 1.4 million people by 1910. In 1865, France and in 1900, Quebec started the movement.Several African, Latin American, and Asian financial cooperatives have developed from this European framework.

c) Indonesia, 1890s–1930s (Bank Rakyat Indonesia)

The Dutch colonial government in Indonesia attempted to establish rural cooperative banks based on the Raiffeisen model to prevent usurious lending practises. The major goal of these local loan banks was to equalise rice supply seasonal fluctuations.Over 12,000 units were created in a quick trial-and-error approach, and many collapsed when they began charging cost-covering interest rates and started working commercially.The government required district banks to help village credit cooperatives, which had little support from the grassroots.In 1895, the Dutch colonial authorities in Indonesia created a co-operative rural banking system, which transformed into one of the world's largest MFIs, Bank Rakyat Indonesia (BRI) (Schwiecker, 2004). By mid-1930s, Indonesia had ninety district banks. And In 1934, these ninety district banks were consolidated into Algemene Volkscredietbank (AVB, People's General Credit Bank,). The bank was nationalised and renamed Bank Rakyat Indonesia Serikat on August 17, 1945, after independence.BRI became a limited company in 1992.

d) Venezuela and Brazil, 1960s (Accion International)

Accion is an international non-profit organization that was established by a UG Berkeley law student, Joseph Blatchford in 1961 in cities of Latin America to assist impoverished people to use their own skills. ACCION, which began as a student-led American volunteer initiative in the shantytowns of Caracas in Venezuela, and Brazil with $90,000 raised from private corporations to develop schools, roads, and community centers, etc. is now one of the world'sleading microfinance organisations with a global lending network whichextends Latin

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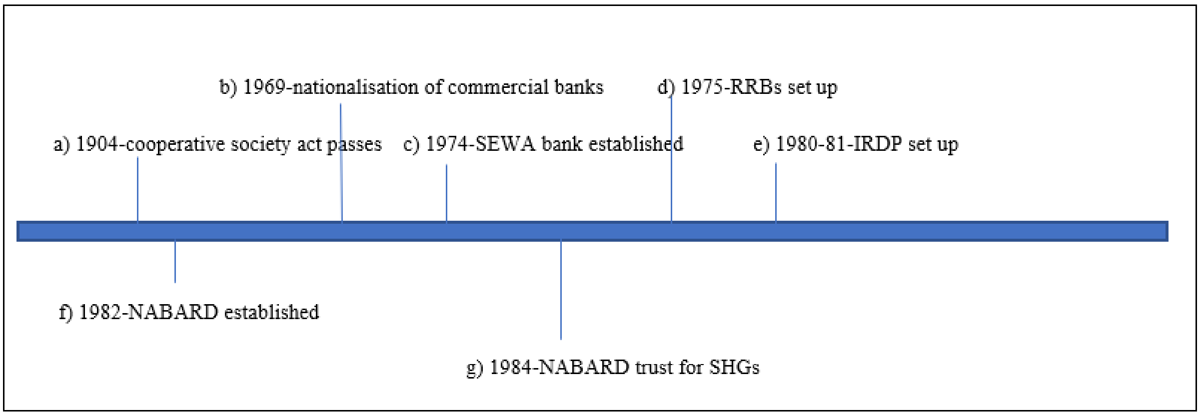
America, the United States, and Africa. In 1973, Accion started micro-lending in Recife, Brazil. Accion lends to almost 5 million individuals via a network of 29 microfinance firms in 23 countries. Accion pioneered microfinance and fintech impact investment. Today, Accion is dedicated to fostering financial inclusion via microfinance and fintech impact investment innovation.

During 1980s,Microfinance in Bangladesh grew rapidly. However, the targeted and subsidised rural loans of nonbanking organisations through a traditional credit system led to a negative performance in numerous verified cases. Thus, microfinancing programmes throughout the globe changed their methods of financing the needy.This technique change revealed that poor individuals were willing to repay loans and microfinance firms' interest rates.This helped MFIs recover costs.Microfinance, which offers financial assistance to underprivileged, rose in several nations **in 1990s.** Through its programs, it provided impoverished entrepreneurs with a standardised platform. It inspired social innovators and organisations worldwide to experiment with microfinance delivery ways to serve the needy.**In the 20th century,** MFIs and their networks grew commercialized, becomingprofit organisations which may generate additional funds and strengthen the financial system. It has now spread in countries of different continents.

Era of Indian microfinance

India's microfinance era has been divided into four phases which are discussed below:

a) Era of emergence (1900-1990)

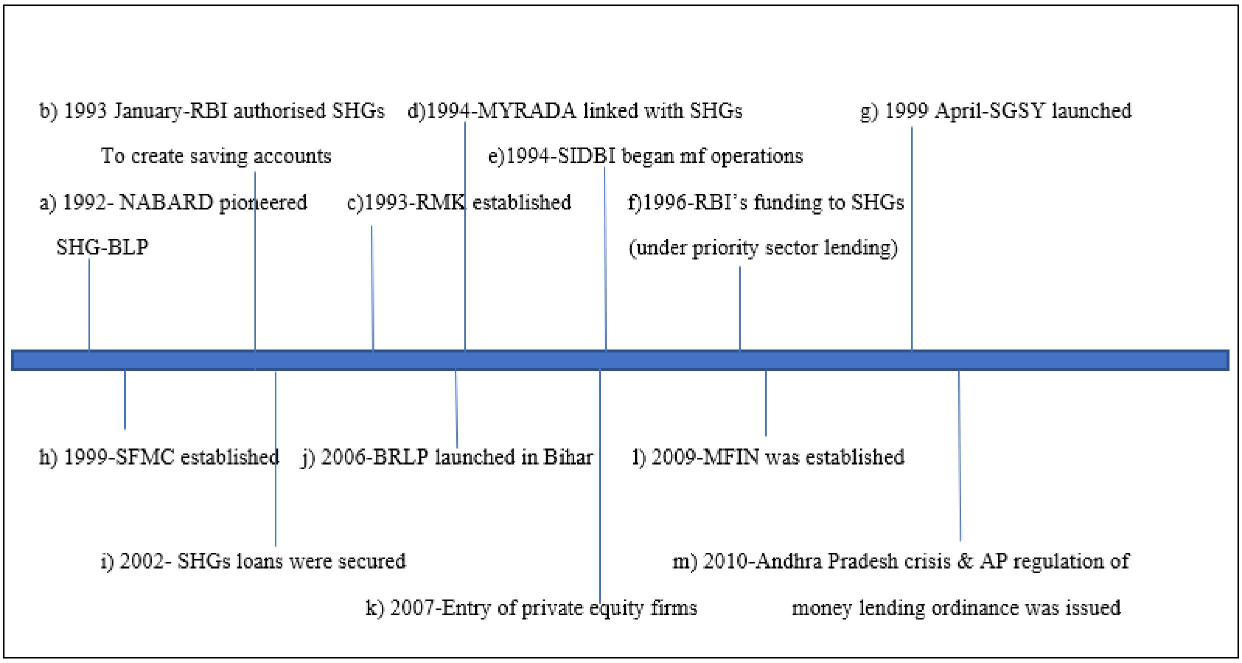


SOURCE-Compiled by Author

In this first phase of microfinance where its existence emerged in the form of provision of subsidized credit to the poor.India's first effort to institutionalise rural loans to promote its agricultural economy was the Cooperative Societies Act of 1904.Agrarian protests in the

Deccan in the late 19th century raised the problem of farmer indebtedness to moneylenders to the British Government. After the agrarian issues, the British government promoted Taccavi loans to farmers, regulated money lending, and promoted rural credit unions as an alternative to money lenders. India's rural credit cooperatives pooled the poor's scarce resources and provided them with financial services. Due to the unavailability of commercial banks in distant locations, cooperatives were the choice for their geographic growth and integration and their supply-driven finance strategy gave rural people subsidised loans from state-controlled or directed banks.In the 1950s, India's rural poor gained financial access via a state-wide rural cooperative bank networkin which 75% of whom function there.Between 1950 and 1969, cooperatives were promoted. but due to their inability to meet increased demand for rural credit due to the green revolution in the 1960s, the Government of India turned to measures like nationalisation of banks (1969), expansion of rural bank network, and establishment of local level banking layer in the form ofstate-sponsored, rural-focused Regional Rural Banks (RRBS)to promote rural economic development of designated target groups and weaker segments involving small and marginal farmers, agricultural workers, craftsmen, small businessesand apex financial institutions for refinance and development like NABARD (1982) and SIDBI.This created one of the world's biggest financial networks. In 1972,SEWA (Self Employed Women's Association) originated in Gujarat to increase bargaining power, income, employment, and social security for its members.In 1974, SEWA founded Shri Mahila SEWA Co-operative Bank with 4000 women's donations to provide basic financial services to underprivileged women. Further,In 1980-81, the Integrated Rural Development Programme (IRDP) started to provide subsidised loans to disadvantaged self-employed persons via the banking sector.NABARD was founded in 1982. As part of IRDP, the government launched DWACRA in the same year of 1982. Rural branches of commercial banks, Cooperative organisations, and Regional-Rural Banks (RRBs)provide subsidised loans to the needy under IRDP and revised initiatives like Swarnajayanti Grameen Swarojgar Yojana. (SGSY). NABARD encouraged SHGs and microfinance enterprises in 1984.Microfinancing during this phase gained the attention of the government and the nation and developed its networks among the poor.

b) Era of development (1990-2010)



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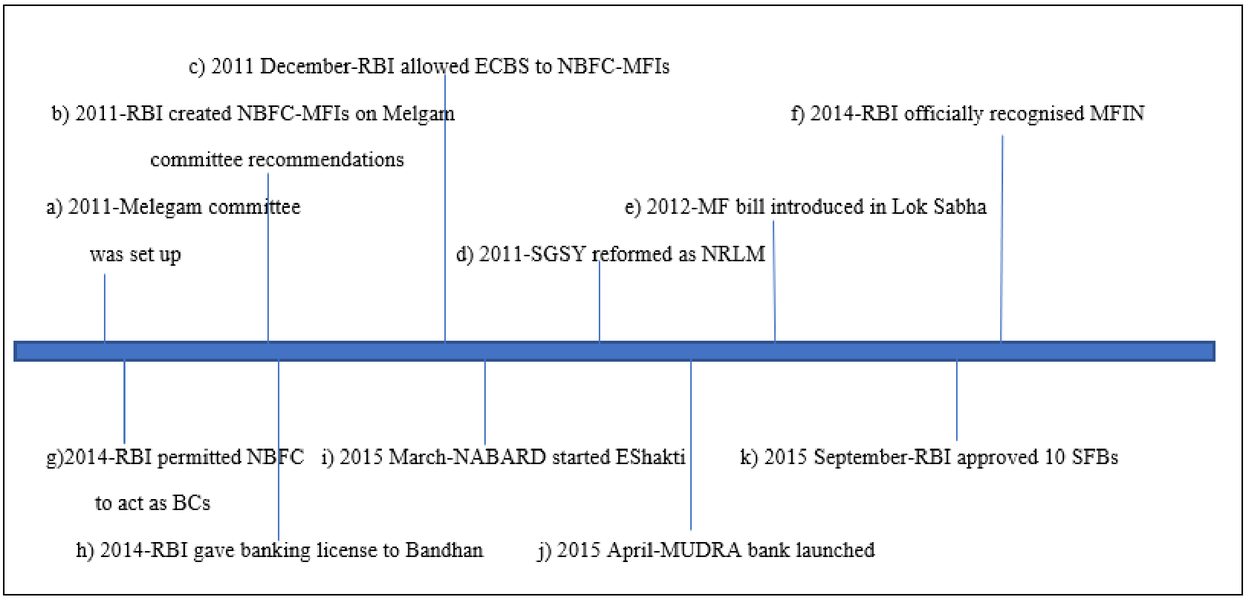
Due to Bangladesh's Grameen Bank model's success, NABARD's 1992 SHG-bank linkage programme deployed SHGs as financial intermediaries to offerbank loans to impoverished members via group lending without collateral.The Self-Help Group Bank Linkage programme (SHG-BLP) from NABARD offers low-cost doorstep banking facilities.The SHG-bank linkage concept created in India is now a key microcredit model worldwide.NABARD started an Action Research Program in 1987 to find out why impoverished people's needs don't match the banking system's services. This research showed that disadvantaged people required improved financial assistance.Based on NABARD's Action Research pilot project for Mysore Resettlement and Development Agency (MYRADA), a 1992 pilot linked 500 SHGS by 1994. NABARD further investigated self-help groups (SHGs) and gave an NGO a grant from 1987 to 1992.The Rashtriya Mahila Kosh (RMK) was founded in 1993 to give more loans to unorganised sector of self-employed women. Again, In January 1993, the RBI authorised SHGS to create savings bank accounts.Further, Shri S. K. Kalia chaired the RBI's 1994 Working Group on NGOs and SHGS to explore microfinance's potential.SIDBI started microfinance services in 1994to grow self-help groups and provide micro-loans to women and poor engaged in micro-industrial businesses. This prompted the RBI to incorporate SHG funding within Priority Sector lending in 1996. SIDBI formed the Foundation for Microcredit with initial capital of Rs 100 crores in 1998. In 1999, SIDBI founded the SIDBI Foundation for Micro Credit (SFMC) to help MFIs succeed. On 1 April 1999,Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Toolkits to Rural Artisans (SITRA),Training of Rural Youth for Self-Employment (TRYSEM), and The Million Wells Scheme (MWS)were merged into one comprehensive programme under the Swarnjayanti Gram Swarozgar Yojana (SGSY) to address all aspects of self-employment, including rural poor organisation, training, a participatory attitude to self-employment, infrastructure, marketing, financing, technology, and entrepreneurial framework plans. The apex organisation of community development financing institutions, Sa-Dhan, was founded the same year.Many new microfinance ventures were launched afterMutually Aided Cooperative Societies Act (MACS Act) was enacted in 1995 by Andhra Pradesh which was followed by other states. After 2000, Indian microfinance changed. Not-for-profits have become for-profit due to expansion and sustainability difficulties. High growth and commercialization occurred between 2000 and 2009.At that time, the Indian microfinance business was booming.The economy was dominated by NABARD's SHG Bank Linkage Program (SBLP), and Microfinance Institutions (MFI) model (Ghate P, 2006). MFIs' banking linkage relationships help them to overcome excessive control and regulation of the formal financing industries.Besides NABARD, Commercial Banks, Regional Rural Banks (RRBs), Small Industrial Development Bank of India (SIDBI), and Rashtriya Mahila Kosh (RMK) provide MFIs with bulk fund for lending to their consumers.Indian bank provisioning regulations brought unsecure SHG loans up to date and proportionaled to other secured loans in 2002. RBI recognised MFIs as an instrument in fighting injustice in 2004.In 2006, GoI and Bihar's state launched Bihar Rural Livelihoods Program (BRLP) to eliminate poverty and empower women in rural Bihar. The goal of this initiative was to assist in the development of a sustainable strategy for improving the livelihoods of rural poor households. The basic development goal was to lower BPL population to 22% by 2015, or by 1.5% per year, in order to meet the Millennium Development Goals (MDGs). Also, Some MFIs and other microfinance organisations closed in 2006 because of claims of excessive interest rates and unethical customer advancement. In between, Private equity firms entered the market in 2007 due to industry expansion, supporting legislation, and economies of scale.The Microfinance Institutions Network were established in 2009 which permitted all NBFC-MFIs to join its network and serve people as a self-regulatory body.In

2010, Andhra Pradesh crisis happened due to MFIs'excess lending of funds to unaffordable borrowers who couldn't pay. Due to this mass defaultsdebtor committed suicide. After this incident, AP government passed the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance. This ordinance included restrictions to stop MFI misconduct in the AP area and restore discipline to the microfinance business. After the Andhra Pradesh crisis, the government of India passed the microfinance bill 2012, which received great successin reducing regulatory ambiguity.

c) Era of change and growth (Since, 2010….)



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Due to the Andhra Pradesh crisis, microfinance fluctuated from 2010 to 2012. SKS (Bharat Financial Inclusion Limited), India's biggest microfinance institution (MEI), became the first MF to issue its shares via an IPO (initial public offer) in July 2010.In 2011, RBI appointed Y.H. Malegam to lead a board committee on MFI problems, which had been weakened by state regulations in AP.On May 3, 2011, RBI released a circular incorporating several Malegam recommendations.The RBI created and regulated MFI NBFCs based on the Melegam Committee's recommendations. In December 2011, RBI offered NBFC-MFIS the external commercial borrowings (ECBS) channel, which was previously available to non-profit MFIs only.2012 saw industry-wide measures from Reserve Bank of India and Malegam Committee guidance. Total loan books were decreased and merged.To reduce regulatory uncertainties after Andhra Pradesh crisis, India passed microfinance bill 2012.On May 22, 2012, the Lok Sabha introduced the Micro Finance Institutions (Development & Regulation) Bill, 2012. Thisbill promoted microfinance institution growth and regulation and considered microfinance organisations as extensions of banks and financial services. RBI classified microfinance services as micro-credit facilities under Rs 5 lakh in aggregate or Rs 10 lakh per individual in this bill.Also, Micro financial services can include thrift, pension, insurance, and money remittance inside India. The Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2010 did not apply to MFIs registered with the apex bank since they were not moneylenders.However, the 15th Lok Sabha lapsed the Microfinance Institutions (Development and Regulation Bill 2012).From 2012 forward, Indian microfinance business recovered and grew.In 2011, SGSY was reformed as the National Rural Livelihood Mission (NRLM), which was implemented nationwide. NRLM is a group-focused poverty reduction initiative. It created, federated, and funded women SHGS, provided livelihoods for rural women farmers and agricultural labourers, added value to tribal non-timber forest products, and addressed gender rights. The mission's major goal was to create rural people, especially women, a new customer category, move them beyond financial inclusion, and allow them to engage in mainstream economic gains.In 2014, MFIN was officially acknowledged by RBI. Additionally, RBI's June 24, 2014 announcement permitted non-deposit-taking NBFC-MFIS to act as Business Correspondents/Facilitators to commercial banks.RBI has also eliminated banks' maximum distance limitations for BC outlet sites. In 2014, the Reserve Bank of India officially recognised Microfinance Institutions Network (MFIN) and founded the Financial Inclusion and Development Department to promote inclusive financial services.The RBI has permitted Bandhan Financial Services Pvt. Ltd., India's largest microfinance organisation, to operate as a private bank in rural areas.NABARD introduced "EShakti" in March 2015 to digitise SHGS in Ramgarh (Harkhand) and Dhule (Maharashtra) in accordance with the Hon'ble Prime Minister's Digital India agenda and its own digitization philosophy. The goal was to empower SHGS via technology. To bring SHGs and their members under Financial Inclusion and offer them access to more financial services, EShakti accumulates demographic and financial informationand makes bankers more comfortable with credit appraisal and linkage. In 2016, this project expanded to 23 additional districts in phase II, then it expanded to 75 more districtsin 2017. Further, additional 150 districts were covered by this initiative in 2019-20.The Micro Units Development and Refinance Agency Ltd. (MUDRA) NBFC was set

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up by Prime Minister Narendra Modi on April 8, 2015, to refinance and regulate micro MFIs and non-profit MFIS(which were outside RBI's regulatory umbrella) that operate in remote areas and serve underserved populations. The Microfinance (Regulation and Development) Bill's provisions of 2012 ought to be incorporated in the proposed MUDRA legislation. RBI approved 10 small finance banks on September 16, 2015. Eight MFIs, one local bank, and one NBFC were included. These entities have time limit of 18 months to establish into SFBs. Microfinance's importance to Indian banking is shown by the fact that 80% of SFBS-approved institutions are MFIs. Small finance banks collected deposits and lend to underserved groups, including small farmers, micro and small unit businesses, and unorganized sector firms. Sa Dhan Report 2019-20 states that Indian microfinance works in 627 districts of 37 states and union territories.Also, Banks lead with 625 districts, NBFC-MFIS 606, SFBS 600, NBFC 524, and Non-Profit MFIs with 313 districts. In recent years, several new approaches, products, and delivery mechanisms have been developed to provide finance to India's poor.Technology is used in microfinance for client acquisition and service delivery. Microfinance regulations are evolving in the development process. Financial inclusion for India's 450 million "unbanked" is being achieved via new rules and programmes.

Conclusion

Microfinance is growing in India with a satisfactory level of development. Microfinance growth in India has shown new financial sector reforms since 1991. It has created global exposure for the commercialization of Indian financial sectors. Microfinance has become a key tool for alleviatingpoverty and economic growth. Microfinance accessibility has a great influence on poverty. People's participation in economic activities enabled them to gain access to various forms of economic and non-economic resources like credit, training, loans, capital support, better health care services, education, etc. In India, microfinancing programmes such as the NABARD, Rastriya Mahila Kosh (RMK), SIDBI, co-operative and commercial banks, Non-Banking Finance Companies Act as (MFIS), etc. play a crucial role in bridging the gap in the financial services industries.

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