

Microfinance – An Emerging Financial Instrument of Financial Inclusion for Social Upliftment and To Eradicate Poverty: A Case Study Based approach

Pashmeen Kaur

(Research Scholar, Maharishi Markandeshwar University, Sadopur, Ambala)

Abstract: Banking sector of India is thriving year by year and fulfilling the requirement of upper and middle class, however there are still some others are left whose needs are not met by these banks. Now the question arises, where will this populace go? Response to this question is Microfinance. To carry out the needs of underserved sections, there is a tool known as microfinance. In India business of microfinance is at its rising stage. According to microfinance market outlook 2014, the national microfinance sector has served 25 million clients and has been mounting by a moving rate of 30% to 50% per year. Micro financial institutions are functioning to eradicate poverty and provide different types of products to poor people according to their needs. Through this case study based paper, efforts have been made to know the measures taken and products introduced by the two top leading microfinance institutions in India.

I. INTRODUCTION

Microfinance sector is relatively new type of financial service sector in comparison to any other sectors. Microfinance plays a vital role in achieving goals like reducing poverty, empowering women, educational goals and major among all is reducing the lacunae in poor and rich through small amount loans which are without collateral security to lower income group for short duration of period and frequency of payment these loans are high. It is a social innovation to alleviate poverty by providing small-unsecured loans. Some small entrepreneurs use these loans as a seed loan to commence their businesses. These microfinance institutions came into being when banking financial institutions cannot be able to fulfill the need of lower level people. The problem related to banking institutions was on both demand and supply side.

- Problems on demand side – Lack of awareness, illiteracy, less access to financial products, terms and conditions of banks, collateral security etc does not direct the poor to take advantage of banking services.
- Problems on supply side – It is very cost ineffective for banks to disburse loans without collateral security and banks are already suffering from the high transaction cost because of large number of underused accounts in banks.
- In CARE RATING REPORT, According to global Findex database (Feb. 2013) by World Bank showing the data that Indian have 35% of formal accounts and 8% of Indian have borrowed money from microfinance institutions which is higher than BRIC nations i.e. only 7%.

In India, schemes like IRDP (Integrated Rural Development Programme), SHG (Self Help Groups), no frills account & MFI (Microfinance institutions) leads to increase income & savings of poor and alleviating them from poverty.

II. LEADING MFIS

According to CRISIL Ratings (June 2014), MFIs shows an optimistic growth and their loan assets will reach to Rs.35000 crore by March 2015. The players in this sector are well capitalized, high growth and in profitable state. After the Andhra Pradesh crises 2010 the micro finance sector evolved with regulatory interventions and standards by RBI for MFIs and NBFC-MFIs. These measures revive the micro finance sector. Which thus lead to the growth track and financial inclusion. Finance inclusion means a process of ensuring access to appropriate financial products and services needed by all section of society in general and vulnerable groups such as weaker section and low income groups in particular. The table below shows the timelines and amendments of guidelines by RBI for the microfinance sector:-

Dates	Key Developments
October 2010	Formation of Malegam Committee by RBI to study the issues and concerns in microfinance sector
January, 2011	RBI released Malegam Committee recommendations for the Microfinance sector
May, 2011	Acceptance of broad framework of Malegam Committee recommendations in Monetary Policy Statement 2011-12 including: Retention of priority sector lending status for bank loans to MFIs, margin cap at 12% and interest rate cap at 26%.
December, 2011	RBI introduced new category of NBFC and termed as 'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs). Some of the key points include <ul style="list-style-type: none"> • Minimum Net Owned Fund of Rs.5 crore for new NBFC MFIs and for existing NBFC MFIs w.e.f. April 1, 2012 • Capital Adequacy Ratio of 15% (relaxation for AP based MFIs for FY12 and for NBFC MFIs with loan portfolio less than Rs.100 crore) • Margin cap at 12%, interest rate cap at 26% and processing charges at 1%
August, 2012	Amendment to NBFC MFI guidelines by RBI which included <ul style="list-style-type: none"> • Registration compulsory for NBFCs intending to operate as NBFC MFIs by October 2012 • Relaxation in meeting norm of Minimum Net Owned Fund of Rs.5 crore for existing NBFC MFIs. It has to be met in tranches with Rs.3 crore NOF by March 2013 and Rs.5 crore by March 2014 • Removal of interest rate cap and linked to borrowing rate plus fixed margin.
July, 2013	Amendment to NBFC MFI guidelines by RBI which included <ul style="list-style-type: none"> • Relaxation in margin cap for all NBFC MFIs irrespective of size at 12% till March, 2014. However from April, 2014, margins are capped at 10% for large MFIs and 12% for others
Nov, 2013	RBI has allowed recognition of industry association of NBFC MFIs as Self-Regulatory Organisation (SRO).
Feb, 2014	Amendment to NBFC MFI guidelines by RBI with respect to pricing of credit: it would be lower of two <ul style="list-style-type: none"> • The cost of funds plus margin • The average base rate of the five largest commercial banks by assets multiplied by 2.75

Source: - Microfinance in India 2014 – Sector Outlook by CARE Ratings

III. OBJECTIVES OF THE STUDY:

- To know the financial measures taken by 2 leading MFIs to help underserved section through its products.
- To study the comparative position of Arohan Private Limited and Bandhan Private Limited.
- To know which of the MFIs is better serve the lower section of society.
- To know the performance and trends of both leading MFIs.

IV. RESEARCH METHODOLOGY

The research paper published on micro finance were studied thoroughly and analyzed. Large no. of extensive research is available on the topic. This was the conceptual research based on case study method. Two leading micro finance institution were selected i.e. Arohan Financial Services Private Limited and Bandhan Financial Services Private Limited, both of them majorly working in West Bengal and north eastern states. Secondary sources such as reports from institutions and websites were used to develop the understanding of measures taken by these MFIs. The current data is collected to know the current position, profitability and working of these two Micro Finance Institutions.

V. REVIEW OF LITERATURE

For financial inclusion, there is need to design financial instrument for poor which will better serve the goal of economic development. The government policies must be incorporate for further growth of indigenous institution and innovations are needed to encourage the financial sector (Ravi Shamita , Gakhar Shruti , January

2015). The strict regulations, new technologies and higher level of competitions leads to innovation of new products development in Indian micro finance sector. (Sinha Gaurav , 2015). These innovations can be done with the help of complete information of people through tools like combined diary i.e. financial diary and time diary which access the financial transaction and time allocation of the respondent of the diary. (Alia Hayyan , Ashta Arvind and Ratsimalahelo Zaka , January 2015)

India's business in micro finance sector is achieving new heights and few leading institution such as Arohan & Bandhan are the examples of these heights. Business is expanding, higher profitability and high investor base leads micro finance sector on the progress path. (CRISIL rating, 2014). But the report released on Indian micro finance sector shows its entering phase of moderate credit risk after 3 years of Andhra Pradesh crisis. (CARE report, 2014). The current instructions circular on the regulation of non banking financial company- micro finance institution (NBFC-MFIs) given by RBI which mentions regulatory frame work, fair practices, code of conduct, geographical diversification, self regulatory organization for NBFC-MFIs (RBI, July 2014). The Summit on inclusive finance also have sub initiative for financial year 2020, the initiatives like annual publication to reveal the state of sector report, the research based analysis of data related to sector and awards seek to recognize and celebrate contribution of institutions, knowledge fair and other associated events (Inclusive finance India Summit, 2014).

The complete picture of micro finance in India is shown which include its origin, goals, market focus, crisis and government interventions which resulted the micro finance a sound sector now a days. (Singh Panwar Jai deep, February 2011). The assessment report of Arohan private limited shows the background practice of Arohan, its profitability and other measures taken by this micro finance institution to serve the motive of inclusive finance (Bansal Hema and Kumari Tanwi, May 2011).

The inclusive business model in South Africa shows the way to micro finance and the financial sector charter encourage to fulfill the gap between black and white people, so that there will not be any racial discrimination. It brings forward the black people in ownership of financial institutions which thus upgrade the condition of poor and black people in South Africa by BBBEE policy. (Sutton N. Christopher and Jenkins Beth, 2007). The countries like South Africa and Ghana have established that micro finance and increased income of business, empowering people especially women and provide life enhancing facilities. (Afrane Sam).

The contribution of K-REP bank in Kenya contributes a lot in alleviating poverty through micro finance (Karugu N. Winifred and Kanyagia Nduta Diane, Kenya)

Undoubtedly self help groups acts as a mile stone in women empowerment and social security but still there is a need of few changes / alternatives to be made like MIS for SHGs and SHG federations and publications of annual report and need the investment for professional staff improvement (C. S Reddy, APMAS CEO, October 2005). Micro finance is more promising approach through which we might increase the likelihood that financial development can broadly contribute to eradicate poverty. (Barr S. Michael, 2005). Multiple interventions are required to improve the condition of poor in terms of immediate income needs, improvement in health care, nutritional advise and education. Micro finance as a program approach financial sustainability can reach beyond the requirement of underserved people (Littlefield Elizabeth, Murdoch Jmathan and Hashemi Syed , January 2003).

VI. ORGANIZATION UNDER STUDY

6.1 Case 1- Arohan Financial Private Limited:

Arohan financial private limited was established in 2005. It started its operations in West Bengal in 2006 with the aim of catering to the credit needs within the underserved population of the area. Arohan expanded its business to various parts of West Bengal, Bihar and Assam. It was acquired by Intellectash micro finance networking company private limited in September 2012 with 56% stake holding in Arohan. After acquisition the micro finance portfolio of Intellectash is consolidated with Arohan.

According to Arohan official website Arohan private limited is working in 38 districts, 104 branches, 303596 customers and Rs. 356.6 Crores outstanding as on Feb 28, 2015.

MISSION:

To empower the underserved by offering arrange of financial services in a manner sustainable for all stake holders.

VISION:

To be among the top 3 financial inclusion players in the east, north east and central India, serving over 10 Lack customers across 10 states and being in the top 10 preferred places to work. (10-10-10)

Case 2 – Bandhan Financial Services Private Limited:

Bandhan was setup in 2001 to address the dual objective of poverty alleviation and women empowerment. The micro financial activities are carried by Bandhan financial services private limited (BFSPL) incorporated under the companies act, 1956 and also registered as nonbanking financial companies with the reserve bank of India.

As on February 2015, Bandhan has been working in 22 states and union territories with 2022 branches and over 63, 66,269 borrowers with a work force of 15,956. The loan outstanding is Rs 8,908 crores. Bandhan in which the World Bank’s arm, International finance corporation has a stake of 10.93%, has capital base of Rs 1100 crores.

VII. COMPARISON OF BOTH MICRO FINANCIAL INSTITUTIONS:

Product details of arohan financial private limited-

Description	Saral Loan	Saral Plus Loan	Bazaar Loan	Bazaar Plus Loan	Pragati Loan
Launch Date	6-Apr	13-Aug	8-Apr	13-Aug	10-Apr
Customer Profile	Economically active women residing in slums/low income areas, generally involved in trade & services	Economically active women residing in slums/low income areas, generally involved in trade & services	Vendors in the authorized markets selling household commodities, perishables. Typically male.	Vendors in the authorized markets selling household commodities, perishables. Typically male.	Entrepreneurs involved in nonfarm enterprises (manufacturing, service units, agri-allied enterprises e.g. furniture makers or retail traders)
Loan Conditions	3-5 member JLGs who undergo 3 days of training prior to loan sanction	Individual Loans for people who have prior credit history with Arohan	3-5 member JLGs who undergo two days of meeting prior to loan sanction	Individual Loans for people who have prior credit history with Arohan	Individuals involved in manufacturing, services and trading and employing at least 2 wage laborers
Loan Size	Rs 10,000 to Rs. 15,000	Rs 20,000 to Rs 30,000	Rs. 10,000 to Rs. 15,000	Rs 20,000 to Rs 30,000	Rs.50,000 to Rs.500,000
Repayment Frequency	Monthly	Monthly	Monthly	Monthly	Monthly
Loan Tenure	12 months	24 months	12 months	24 months	12-36months
Interest Rate	26.50%	26%	27%	26.50%	30%

Source- www.arohan.in

Products details of bandhan financial services private limited

No	Loan Product	Loan Amount	Tenure	Rate of Interest
1	Suchana (Micro Loan)	Rs 1000- Rs15000 subsequent increase upto Rs10,000	12 months	22.40%
2	Srishti (Micro Enterprise Loan)	Rs16,000- Rs50,000 susequent increase upto Rs 10,000. Loan does not exceed Rs 35,000 in first cycle	24 months	22.40%
3	Samriddhi (Micro small and Medium Enterprise Loan)	Rs 51,000 – Rs 500,000	12/18/24 months	22.40%
4	Suraksha (Micro Health Loan)	Rs 1000 – Rs 10,000	12 months	12.00%
5	Susikhsha(Micro Education Loan)	Rs 1,000 – Rs 10,000	12 months	12.00%
6	Fisheries	Rs 10,000 – Rs 1,00,000	12/24 months	22.40%

Source-www.bandhanmf.com

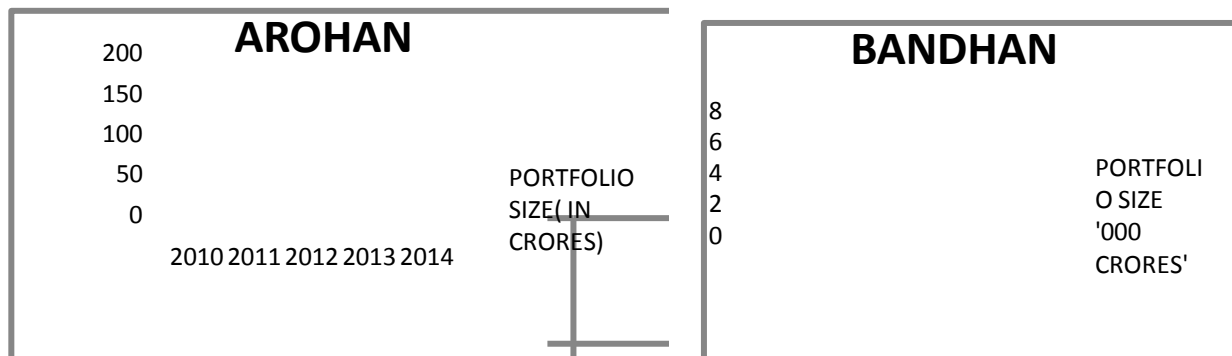
OUTCOMES – The statistical data of both mfis shows that Bandhan has more user friendly loan products in its basket. This institution has taken adequate measures to curtail the poverty through its products and also the interest rate of Bandhan is less than Arohan, which shows that Bandhan is performing much better in the microfinance market.

Data of arohan and bandhan

		2010	2011	2012	2013	2014
PORTFOLIO SIZE	AROHAN (IN CRORES)	96	88	53	90.4	190.3
	BANDHAN (IN '000' CRORES)	1.5	2.5	3.7	4.4	6.2
OUTREACH- NO. OF BRANCHES	AROHAN (IN UNITS)	86	149	98	67	73
	BANDHAN (IN THOUSANDS)	1.1	1.6	1.6	1.8	2
NO. OF BORROWERS	AROHAN (IN THOUSANDS)	188	214	108	114	209
	BANDHAN (IN MILLIONS)	2.2	3.3	3.6	4.4	5.4

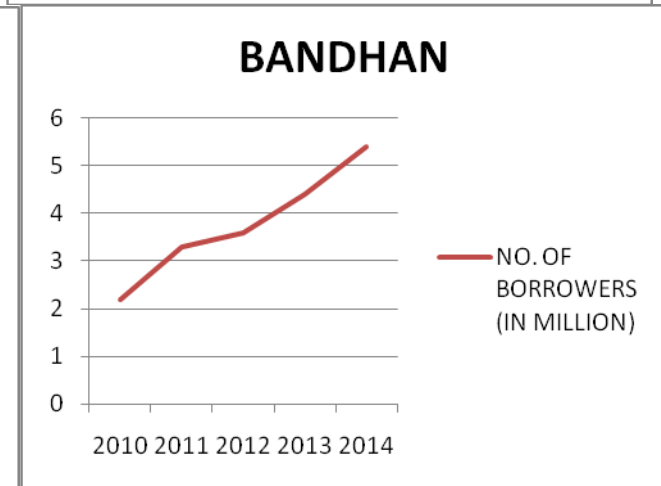
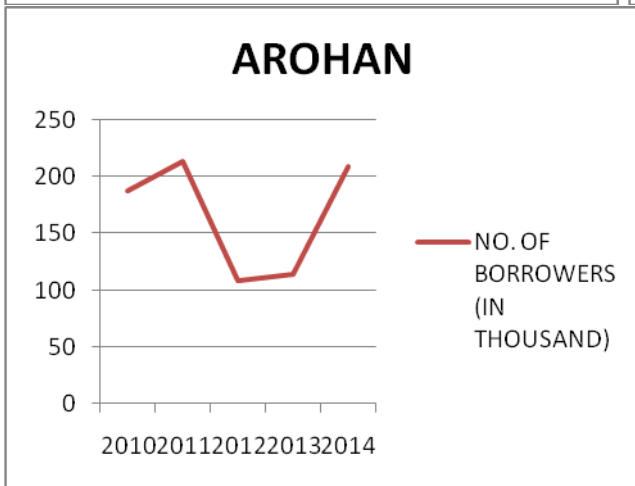
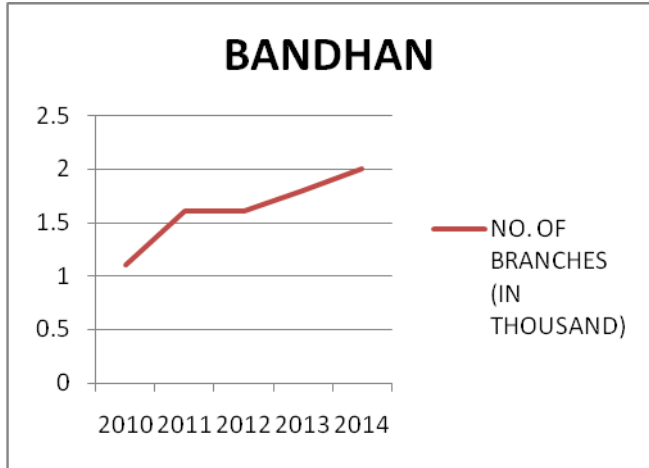
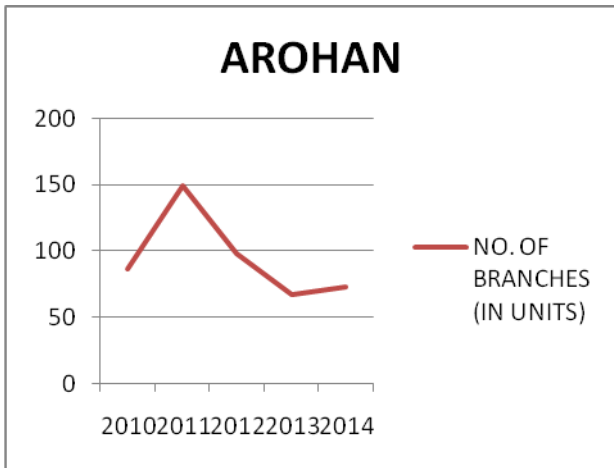
		2010-11	2011-12	2012-13	2013-14
PROFITABILITY (PAT) (IN CRORES)	AROHAN	0.3	-12.27	0.05	3.06
	BANDHAN	118	188	209	283.6

VIII. PORTFOLIO SIZE OF BOTH MICRO FINANCIAL INSTITUTIONS



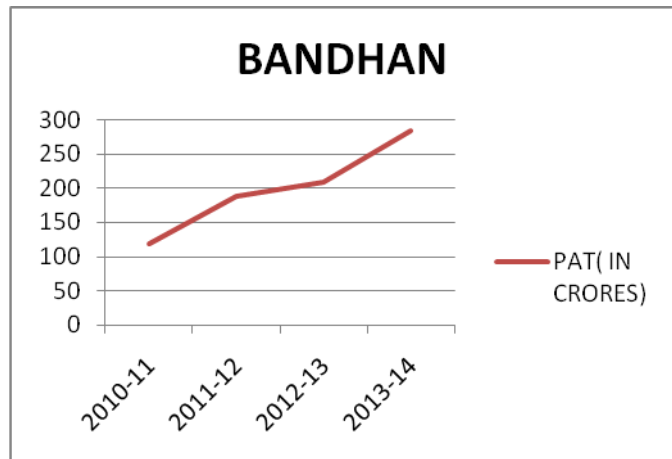
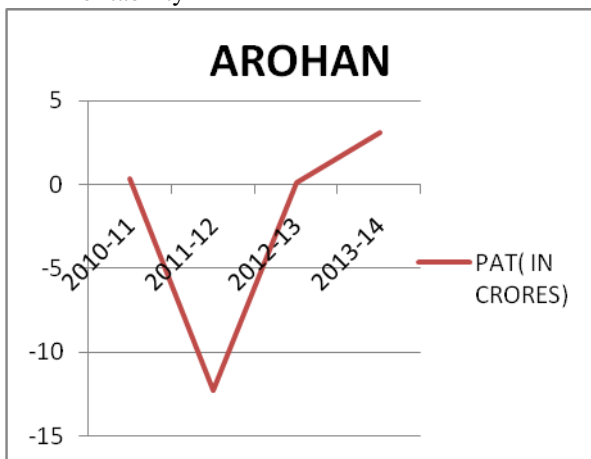
OUTCOMES – The loan portfolio of Arohan turned down after 2010 because of Andhra Pradesh Crisis, which consequences in decline of the microfinance business but government intervention after this event results in regulatory measures adopted by the government to track the MFIs. After few years of this crisis, now microfinance business is blossoming again and a clear picture are visible through the data and graphs. Bandhan performance is much healthier than Arohan, which means the disbursement of loan is much higher in Bandhan.

NO. OF BRANCHES AND BORROWERS



OUTCOMES – Rising trend of number of branches and borrowers in Bandhan depict the accessibility of financial services into underserved sections. It perpetuate to the development of country. Arohan has also shown its positive sign of improvement after a declining stage in 2012.

Profitability



OUTCOMES – With its resourceful products in the market, Bandhan has achieved its regular increasing trend since 2010 in profit after tax (PAT), whereas Arohan has slope down in financial year 2011-12 but shown rapid increase in successive years. The main factor behind the regular positive trend would be the low operating cost

of Bandhan. Profitability of both the cases has shown less bad debts from the customers and more popular among the society.

As both the firms are leading organizations in micro finance sector. It helps to the lower section which may not be able to generate income due to scarcity of financial resources. Micro finance organization (i.e Arohan) has also designed some of their products (Saral loan and Saral plus loan) especially for empowering women. As major population in our country lives in villages where people lack in financial resources, so to meet their need the progress of micro finance sector is quite necessary resultant in economic development.

IX. RECOMMENDATIONS:

As the business of micro finance institution is flourishing at a fast pace, there is need to inculcate few actions which should be made to accelerate the process of these MFIs.

- Borrower income generating activities- It is important to know about the income generating activities of those who are in need of loan, so that it can enhance its live hoods as well as there will be proper match between the needs or requirements of the clients.
- Inclusion of diary system in micro financial institutions- Diary system includes the distribution of financial and time diaries to few respondents which helps the micro financial institutions to know their needs in which the diary respondent mentioned all of its spending of finance and activity related to their daily routine. These diaries can be used to know the allocation of finance and time, so that institution can know the need of loans according to their spending and routine activities of the respondent.
- Lower interest rates – The interest rates charged by these MFIs are more than commercial banks, some claims that it is justified by considering the cost of capital and the cost incurred in giving services. Despite the fact the poor are not able to pay the high interest charged by these institutions. Those people need affordable loans.
- Need of more MFIs in India- There are still few places left where MFIs are still not in reach where poor people have fear to take loans from commercial banks. More microfinance institutions should be opened and Leading MFIs should open its branches where there is need of micro finance to the underserved section of society.
- Need of participation of women as active member - Women empowerment is definitely have taken financial edge due to micro finance but institution giving loans to women groups should arrange meetings of the group time to time, so that feedback and recent requirement of women can be known. It will help in women's part in developmental process.
- Agricultural loans -Most of the people in India depend upon agriculture. There is a need to develop products which served the purpose of poor farmers.
- Support to lower income MFIs - Government should financially facilitate those lower income MFIs which are suffering from financial crunch and does not raise its capital through share capital and other sources.
- Use of Technology – Technology should be used to operating cost of micro financial institutions.
- Encourage rural penetration.
- Use of mobile money – Introduce mobile payment systems. According to 2011, Findex data, only 4% of adults used mobile phones in paying bills.

X. CONCLUSION

MFI sector is still in growing stage, there is need to curb the challenges and ensure regulatory measures for smooth processing. Micro financial institutions are elevating its strength year by year and this ultimately up gradation of lower section and women of the society. The need of the hour is to know what the financial needs of the poor and no poor can die because of no finance.

Arohan and Bandhan are performing better but there is still some untouched remote places where the requirement of finance is more but such services are not yet reached. Government should support such micro financial institutions so that there need of capital can be fulfilled. Involving women and providing them loans also help in reducing gender discrimination in our country. Thus, micro financial institutions are meeting horizontal and vertical axis for the upliftment of society in all context.

REFERENCES

- [1] Ravi Shamika and Gakhar Shruti, Advancing financial inclusion in India beyond the JAN-DHAN YOJANA, Brooking India impact Series, Jan 2015.
- [2] Bansal Hema and Kumari tanwi, client protection assessment report Arohan, the Smart campaign, may 2011.
- [3] Indiependent Auditor's report, Arohan financial services private limited, 2013-14.
- [4] Alia Hayyan, Ashta Arvind and Ratsimalanhelo Assessing economic impact of micro finance using a combined diary approach, Indian Institute of management, Ahmedabad, January 7-9, 2015.
- [5] CRISIL Rating report, India's 25 leading MFIs, June 2014.
- [6] Littlefield Elizabeth, murdoch Jonathan and Hashemi syed, Is Micro finance an effective strategy to reach the millennium development goals? January 2003.
- [7] Sinha gaurav, innovation in micro finance: examining new product development process in Indian MFIs, strategic change: briefing in enterpenural finance, 2015.
- [8] Barr S. Michael, micro finance and financial development, Michigan Journal of international law, May 2005, Vol 26.
- [9] Dr. Vade Suresh, Role of financial services in ecominmic development: a study in developing countries, EXCEL international Journal of multi disciplinary management studies, Feb 2012, Vol 2, Issue 2.
- [10] Karugu N. Winifred & Kanyagia Nduta Diane, Case Study K-REP Bank: Alleviating poverty through Micro-finance.
- [11] Reddy CS, Self Help Groups: A key stone of micro finance in India – women emporwerment and social security, Oct 2005.
- [12] Simonowitz Anton and Walter Alice, Ensureing impact: reaching the poorest while building the financially self sufficient institution and showing improvement in the lives of the poorest families, action research programme, October 2002, occasional paper no. 3.
- [13] CARE rating report, Bandhan financial services private limited, June 2014.
- [14] Sutton N Christophser and Jenkins beth, The role of financial services sector in expanding economic opportunity series,2007.
- [15] www.arohan.in
- [16] www.bandhanmf.com