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Recent Trends in Banking and Financial Services: Challenges and Opportunities

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Abstract

Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. It is emerging as a powerful tool for poverty alleviation in India. This article shows the outline of prevailing condition of the Microfinance in India from its emergence till now. The prospect of Micro-Finance is dominated by SHGs (Self Help Groups) - Banks linkage Program. The main aim of this program is to provide financial service to the poor, in a cost effective way. This article reveals the prevailing gap in functioning of MFIs such as practices in credit delivery, lack of product diversification, customer overlapping and duplications, consumption and individual loan demand with lack of eliminating measures, less demand on enterprise loans, collection of savings/loans and highest interest rate existing in micro finance sector. More than subsidies poor need access to credit. Absences of formal employment make them none `bankable'. This pushes them to borrow money from local moneylenders at highest interest rates. Many innovative institutional systems have been developed across the country to enhance credit to poor even in the absence of formal arrangements. In line with Micro Finance Institutions in India, Tourism Finance Corporation of India also plays a vital role in rural tourism development, by way of educating small scale entrepreneurs and self motivated, educated and unemployed persons by engaging themselves for self employment and self sufficient to eradicate poverty in their own native. There are various reasons affecting the use of micro finance facility in India. Solution for various problems of Micro Finance in India is expressed at the conclusion.

Key Words: *Micro Finance, Economically, Self Help Groups, Tourism Finance Corporation.*

I. INTRODUCTION

Financial inclusion is the main objective of promoting micro finance model in India, the growth of economy largely relies on the health of poor from the both rural and urban. Micro finance aims to provide credit without collateral, usually in small amounts and for short period of time. The exhilaration around microfinance has usually been based on the discernment that it allows formal financial institutions to penetrate into forms of lending that are otherwise subjugated by informal arrangements, such as customary moneylenders. It is widely recognized that traditional banks, which act as creditors to most entrepreneurial commotion in the modern world, have basically avoided lending to the poor. Instead, credit to the poor segments has been provided generally by local moneylenders, frequently at high interest rates. Poor people are largely deceived from the moneylender clutches, especially, high interest rate, no relaxation on the settlement; stringent norms etc are the big detrimental issues.

During the recent past, micro finance has gone from being hero to zero in the growth discussion: from being praised as the right weapon to solve the problems of development and poverty reduction. There are several criticisms that arise in lending to the poor people. At first, poor often lack the resources needed to invest their borrowings to the productive purposes. Secondly, even if the loans could be allocated for productive purpose, commercial banks would find it difficult to lend. Absence of information about the track record of their business, promoter's capability and creditworthiness are questionable fact in this regard. Finally, showing collateral to cover the loan borrowing is limited or less in the hands of poor borrower. This reduces the bank's recourse to a saleable asset once the borrower defaults on their loan payment. The mushroom growth of micro finance institutions of both non-profit and profit seeking entities was very rapidly followed by crises in some of the states, that were former seen as the most well-known sites of success, in the distinctive manner most financial bubbles that explode. In this study the downfall of microfinance activities in the recent past and various mechanisms that makes microfinance an ineffective tool in rural development has been considered.

OBJECTIVES

1. To check the recent problems & prospects in micro finance activities in India.
2. To know the transformation effect in the offering of micro finance services to the unprivileged sector mainly rural tourism.
3. To find out the problems in availing micro finance product from the micro finance institutions.
4. MFIs must collaborate with Tourism Department in every state to attract, educate and bring awareness by empowering small scale entrepreneurs, Self Help Groups.
5. By way of promoting fairs, festivals, etc., in every rural tourism destinations by involving local people.

Why Microfinance?

In fact, microfinance is an ancient practice used during the age of Babylonians. In India, micro finance appeared 3,000 years ago. It took three main forms: Traditional private lenders, merchants' guild and rotating savings and credit association (ROSCA).

In developing states, financing to the rural poor through formal financial services failed to meet the credit requirements of the rural poor people. The main reason of failure was absence of any recognised employment and hence absence of collateral with the poor. The high risk and the high transaction costs of banks associated with small loans and savings deposits are other factors which make them non-bankable. The lack of loans from formal institutions leaves the poor with no other option but to borrow money from local money-lenders on huge interest rates. In India, efforts have been made by the government to deliver formal credit to rural areas by setting up special agricultural banks/rural banks or directing commercial banks to provide loans to rural borrowers. However, these programmes have also not worked well due to various reasons. The common reasons found by many researchers are the political difficulty for government to enforce loan repayment and the selection of relatively wealthy and influential people, rather than the poor, Thus, the inability of formal credit institutions to deal with the credit requirements of poor effectively has led to emergence of microfinance as an alternative credit system for the poor.

Microfinance scheme provides a wide range of financial services to people who have little or nothing in the way of traditional collateral. It helps them to build up assets, survive crises and to establish small business to come out of poverty. Except extending small loans (micro-credit), microfinance programme provides various other financial and non-financial services such as savings, insurance, guidance, skill development training, capacity building and motivation to start income generating activities to enhance the productivity of credit. This innovative programme is reaching the poor people especially women and has an impact on their socio-economic development as well as their empowerment. This programme is becoming popular and emerging as a powerful instrument for poverty alleviation in India.

In India, the first initiative to introduce microfinance was the establishment of Self Employed Women's Association (SEWA) in Gujarat. In the midst of the apparent inadequacies of the formal financial system to cater to the financial needs of the rural poor, the first major effort to reach these rural poor was made by NABARD in 1986-87, when it supported and funded an action research project on 'Saving and Credit Management of Self-Help Groups' of Mysore Resettlement and Development Authority (MYRADA). For this purpose, a grant of Rs. one million was provided to MYRADA. The encouraging results were yielded.

In order to further promote this programme RBI issued instructions to banks in 1996 to cover SHG financing as a mainstream activity under their priority sector-lending portfolio. The programme acquired a national priority from 1999 through Government of India budget announcements. With the support from both the government and the Reserve Bank of India, NABARD successfully spearheaded the programme through partnership with various stakeholders in the formal and informal sector.

Since the time of its origin, NABARD provides policy guidance, technical and promotional support mainly for capacity building of NGOs and SHGs. Realising the potential in the field of microfinance, the government allowed various private players to provide microfinance in the country.

II. PROBLEMS & PROSPECTS OF MICROFINANCE IN INDIA

No doubt, microfinance programme has shown impressive achievements, but a number of questions arise: Did this programme reach the underprivileged? Whether everyone in need of microfinance intervention had been reached by any of the agencies? Even if everyone had been reached, did they get the required quantum of assistance to have sustainability? These questions are still very inconvenient to be answered because there are certain problems associated with this programme.

The terms microfinance as the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. The Task Force emphasises that microfinance will cover not only consumption and production loans, but also loans for other credit needs such as housing and shelter.

The Micro Financial Sector (Development and Regulation) Bill, (2007) defines microfinance as the provision of financial assistance and insurance services to an individual or an eligible client either directly or through a group mechanism for an amount, not exceeding rupees fifty thousand in aggregate per individual for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual); or an amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing or other prescribed purposes. The eligible clients which may get financial assistance under this scheme may be landless labourers and migrant labourers; artisans and micro-entrepreneurs; disadvantaged cultivators of agricultural land including oral lessees, tenants, and share croppers; and farmers owning not more than two hectares of agricultural land.

Grameen Bank Model

Grameen Bank model is one of the oldest and most successful models of microfinance. This model was developed in Bangladesh. In this model microfinance programme participants are organised into groups of five members. They make mandatory contribution to group savings and insurance fund. Each member maintains her individual saving and loan account with the bank and after contributing to the savings fund for a fixed time the group members receive individual loans from the bank. But the group is not required to give any guarantee for the loan repayment by its member. Repayment responsibility solely rests on the individual borrower and there is no form of joint liability, i.e. group members are not responsible to pay on behalf of a defaulting member. Loans are provided for six months to one year duration but repayments are made weekly. Bank staff make periodic visits to the groups, maintain individual records of group members and facilitate all the financial transactions. This creates ease in working but hindrance in the empowerment of members. The members remain dependent on field officers regarding their all group related activities. Many MFIs in India have also replicated this model.

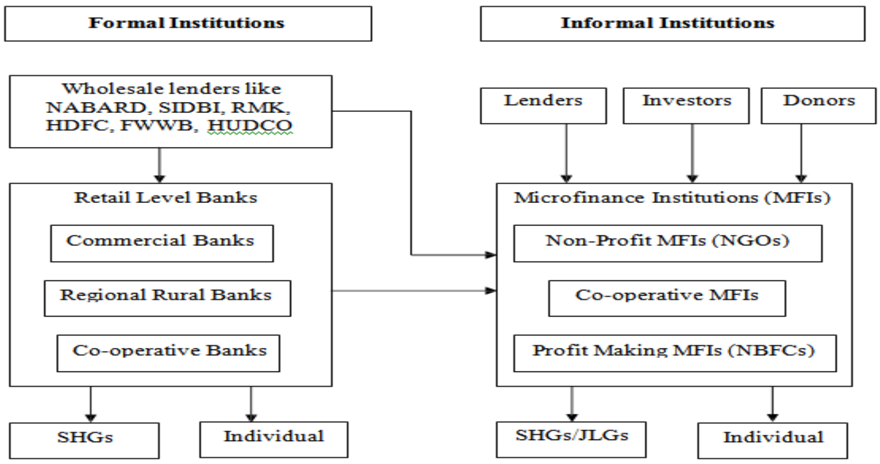
In India, there is a wide variety of institutions in public as well as private sector which provide microfinance to the poor. These institutions can be broadly divided into two types. First type is the traditional formal financial institutions, while the second type is Microfinance Institutions (MFIs). The traditional financial institutions comprise of commercial banks, regional rural banks and co-operative banks. They provide microfinance services in addition to their general banking activities and are referred to as microfinance service providers. On the other hand MFIs are different types of financial institutions whose main financial activity is providing microfinance only. Many of these institutions are NGOs, Mutually Aided Co-operative Societies (MACS) and Non- Banking Financial Companies (NBFCs). In case of traditional financial institutions both private and public ownership are found but the MFIs are mainly in the private sector.

This fervor suggests that microcredit really must help the poor. And many have made grand claims to this effect, including Yunus, who said, “We will make Bangladesh free from poverty by

2030." Somewhat less ambitiously, the *State of the Microcredit Summit Campaign Report 2006* states that "microcredit is one of the most powerful tools to address global poverty."

The Nobel Committee awarded the 2006 Nobel Peace Prize to Muhammad Yunus and Grameen Bank, declaring that microcredit is "an ever more important instrument in the fight against poverty."

Institutional Arrangement for Microfinance Disbursement in India



Deserving Poor are yet to Reach

The microfinance delivery models are not exclusively focused on those who are below the poverty line or very poor. Though the programme is spreading rapidly but with a slow progress in targeting the bottom poor households. About 50 per cent of SHG members and only 30 per cent of MFI members are estimated to be below the poverty line. The SHG-BLP has no explicit social or economic benchmarks for inclusion of members in the groups to be credit linked. Lack of specific benchmarks for group membership lead to inadequate poverty targeting. It is also found that the microfinance promoting institutions are also biased while selecting the programme members. In order to run the groups successively and to achieve higher repayment rates, they generally select the non-poor people as programme beneficiaries. A study also shows that the staff members of microfinance institutions prefer to exclude the core poor since lending to them is seen as extremely risky. The study also finds that the core poor are often not accepted in group lending programmes by other group members because they are seen as a bad credit risk.

As per NABARD, the coverage of microfinance programme is comparatively low in Orissa, Bihar, Chattisgarh, Jharkhand, Uttaranchal, Madhya Pradesh and Uttar Pradesh which have a larger share of the poor.

Lack of Insurance Services

Poor people are vulnerable to financial shocks. A small change in their earning patterns due to natural calamities, health problems, death of earning member etc. can push them to destitute. So, a provision of insurance under the microfinance programme is very essential to help the poor to cross the poverty line.

Binding of Saving, Meetings and Regular Payments

The uniqueness of the SHG-BLP is the fundamental requirements of the programme, such as compulsory savings, group meetings, regular repayments etc. But these requirements also lead to the exclusion of the core poor from joining the microfinance programme. Poor people who generally do not have a regular source of income are required to save before getting a loan. These loans are to be repaid regularly in fixed installments. But due to their irregular and seasonal nature of jobs, poor people face difficulties while repaying the loans. It is also found that the initial group loans are utilised for essential non-productive purposes rather than for generating incomes which leads to repayment difficulties. Weekly or fortnightly group meetings are made mandatory, so, the rural poor people who generally earn their livelihood through domestic labour and daily wage earning find it difficult to attend group meetings regularly.

Prospects of Microfinance

Microfinance programme has witnessed phenomenal growth in India in the past years. Studies show that this programme is helping the poor in many ways. However, the focus of most of the microfinance service providers has remained on expanding the outreach of microfinance programme with little attention on the depth, quality and viability of the financial services. Besides removing these problems there is a lot which can be done in this field to make this programme more effective. Some future prospects in this field are discussed below:

Growth Prospects

Microfinance programme has a wider prospect to expand both the outreach and depth of services provided. Also, the average loans provided to the SHG members under both the SHG-BLM and MFI models range between Rs. 3,500 to 5,000 which can meet the liquidity requirements only and are not sufficient to help a member to start productive activities. So far the government has been succeeded in providing only Rs.2, 000 crore annually against a demand of over Rs. 50,000. Hence, there is a vast unmet demand in the rural and urban sectors, and there is ample scope for the growth of different kinds of MFIs and microfinance service providers.

Schemes to Support MFIs

MFIs are meant to play an important role in reaching the poor people who are not served by the formal financial institutions. But most of these institutions are restricted by RBI to collect savings from their members and raise public funds. As these institutions do not publish their annual financial reports, it is difficult to determine their financial health.

Regulation of MFIs

Currently, various entities such as co-operative societies, mutual benefit societies or mutually aided societies etc. are engaged in the activity of microfinance. They are guided by different laws under which they are registered. Lack of a single regulatory authority restricts the orderly growth of microfinance sector. Keeping in view all the regulatory problems, the Government of India has proposed legislation and formulated a bill for the development and regulation of microfinance sector. This bill is under consideration of the Parliament.

Insurance Services

In India, the penetration of insurance services among rural poor people is very limited and there is a great potential for the same. Moreover, poor are very much vulnerable to the natural uncertainties and insurance is necessary for them. The network used for microfinance programme can be used to tap the potential of insurance in rural markets.

Flexibility in the Programme

Some main features of the microfinance programme include compulsory savings, regular group meetings, record maintenance etc. These bindings lead to the exclusion of core poor from joining the microfinance programme. Therefore, in order to expand the outreach of the programme to the poorer people, there is a need to introduce more flexible system.

Technical Innovations

In order to improve the quality of microfinance services some technical innovations may be introduced. A number of electronic devices are being used in different countries to expand the outreach and to improve the microfinance functioning. Some of these devices are mobile phones, ATMs, processor cards, computers etc.

Mahatma Gandhi’s one of the well designated quote : It is one of the most beautiful compensations in the world, that no man can try to help another without helping himself / herself.

III. MICROFINANCE INSTITUTIONS IN INDIA

End of March 2013, India has got 216 microfinance institutions with a loan portfolio of up to Rs.5,898.2 crore, according to the Bharat Microfinance report of Sa-Dhan, an association of development finance institutions. Of that, top 50 Micro Financial Institutions in India, as per **CRISIL** (Credit Rating Information Services of India Limited) are mentioned below.

1.SKS Microfinance Ltd, Secunderabad, AP, 2.Spaandana Sphorty Financial Ltd, Hyderabad, AP, 3.Share Microfin Ltd, Hyderabad, AP, 4.Asmita Microfin Ltd, Hyderabad, AP, 5.Shri Kshetra Dharmasthla Rural Development Project, Dharmasthala, Karnataka, 6.Bhartiya Samruddhi Finance Ltd, Hyderabad, AP, 7.Bandhan, Kolkata, WB, 8.Cashpor Micro Credit, Varanasi, UP, 9.Grama Vidyal Micro Finance Pvt Ltd, Tiruchirapally, TN, 10.Grameen Financial Services Pvt Ltd, Bangalore, Karnataka, 11.Madura Micro Finance Ltd, Chennai, TN, 12.BSS Micro Finance Pvt Ltd, Bangalore, Karnataka, 13.Equitas Micro Finance India Pvt Ltd, Chennai, TN, 14.Bandhan Financial Services Pvt Ltd, Kolkata, WB, 15.Sarvodaya Nano Finance Ltd, Chennai, TN, 16.BWDA Finance Ltd, VIllupuram, TN, 17.Ujjivan Finance Services Pvt Ltd, Bangalore, Karnataka, 18.Future Financial Services Ltd, Chittoor, AP, 19.ESAF Micro Finance & Investments Pvt Ltd, Trissur, Kerala, 20.S.M.I.L.E Microfinance Ltd, Chennai, TN, 21.SWAWS Credit Corporation of India Pvt Ltd, Secunderabad, AP, 22.Sanghamitra Rural Financial Services, Bangalore, Karnataka, 23.Sadhana Microfin Society, Kurnool, AP, 24.Gram Utthan, Kendrapara, Orissa, 25.Rashtriya Seva Samithi, Tirupati, AP, 26.Sahara Utsarga Welfare Society, Kolkata, WB, 27.Sonata Finance Pvt Ltd, Allahabad, UP, 28.Rashtriya Grameen Vikas Nidhi-CSP, Gauwahati, Assam, 29.Arohan Financial Services, Kolkata, WB, 30.Janalakshmi Financial Services Pvt Ltd, Bangalore, Karnataka, 31.Annapurna Financial Services Pvt Ltd, Hyderabad, AP, 32.Hand in Hand Tamil Nadu, Kancheepuram, TN, 33.Payakaraopeta Women's Mutually Aided Co-operative Trift and Credit Society, Payakaraopeta, AP, 34.Aadarsha Welfare Society, Mahabubnagar, AP, 35.Adhikar, Bhuvaneshwar, Orissa, 36.Village Financial Services Pvt Ltd, Kolkata, WB, 37.Sahara Uttarayan, Kolkata, WB, 38.RORES Micro Entrepreneur Development Trust, Srinivasapura, Karnataka, 39.Centre for Rural Reconstruction through Social Action, Rajahmundry, AP, 40.Indur Intideepam MACS Federation Ltd, Nizamabad, AP, 41.Welfare Organisation for Multipurpose Mass Awareness Network, Tiruchirapalli, TN, 42.Pragathi Mutuallly Aided Cooperative Credit and Marketing Federation Ltd, Warangal, AP, 43.Indian Association for Savings and Credit, Coimbatore, TN, 44.Sewa Mutually Aided Cooperative Trift Societies Federation Ltd, Hyderabad, AP, 45.Initiatives for Development Foundation, Bangalore, Karnataka. 46.Gandhi Smaraka Grama Sewa Kendram, Alappuzha, Kerala, 47.Swayamshree Micro Credit Services, Bhuvaneshwar, Orissa, 48.ASOMI, Guwahati, Assam, 49.Janodaya Trust, Bangalore, Karnataka, 50.Community Development Centre, Genguvarpatti, TN.

As per Forbes list 7 MFIs out of these Top 50 MFIs of India are listed in the top 50 MFIs globally. 1.Bandhan (Society and NBFC), 2.Microcredit Foundation of India, 3.Saadhana Microfin Society, 4.Grameen Koota, 5.Sharada's Women's Association for Weaker Section, 6.Asmitha Microfin Ltd., 7.SKS Microfinance Private Limited.

IV. CONCLUSION

Despite the hoopla surrounding microcredit, few have studied its impact. One of the most comprehensive studies reaches a surprising conclusion: Microloans are more beneficial to borrowers living above the poverty line than to borrowers living below the poverty line. This is because clients with more income are willing to take the risks, such as investing in new technologies, that will most likely increase income flows. Poor borrowers, on the other hand, tend to take out conservative loans that protect their subsistence, and rarely invest in new technology, fixed capital, or the hiring of labor.

In today's ever changing scenario, if we use old fashioned techniques and out dated tools or machines, we will not get the results as what we expected. Poverty alleviation cannot be defined only in economic terms; it is also about addressing a much broader set of needs. Amartya Sen, the Nobel Prize-winning economist, eloquently argues that development can be seen as a "process of expanding the real freedoms that people enjoy." Social, cultural, and political freedoms are desirable in and of themselves, and they also enable individual income growth. Services such as public safety, basic education, public health, and infrastructure nurture these freedoms and increase the productivity and employability of the poor, and thus their income and well-being.

Contrast this image with that of another India, where 79 percent of the population still lives on less than Rs.150 per day, 39 percent of adults are illiterate, 31 percent of rural households and 9 percent of urban households do not have safe drinking water, 81 percent of rural households and 19 percent of urban households do not have a toilet, 10 percent of boys and 25 percent of girls do not attend primary school, 49 percent of children are underweight, 9 percent of children die in the first five years of their lives, and 400,000 children die of diarrhea every year.

The boom in India's private sector has been accompanied by an outright failure of the state, and the poor have borne the brunt of this failure. The rich can purchase services from private enterprises, and the middle class are the main beneficiaries of limited public services. But the poor have little or no access to public services and cannot pay the high prices for private services. For instance, children of the rich go to exclusive private schools, children of the middle class use a mix of private and public schools, and children of the poor often do not go to school at all or go to low-quality public schools.

To reach the success in every step, National, State and District level tourism organisations must join hands with MFIs, Rural Banks, Co-operative Banks, Nationalised Banks, Self Help Groups to educate and nurture self motivated educated and rural youth & women by promoting rural tourism by way of organising fairs and festivals in regular basis with the help of print and electronic media effectively. Once Micro Finance Institutions adopt these simple methods, they can overcome all the challenges in the near future in India.

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