

## CONCEPT PAPER: MICRO-FINANCE INDIA

### 1.0 Introduction

The researcher acknowledges the relationship between the portrayed visions and missions of this project and the funders' mission and vision. This project strongly acknowledges the potential roles of micro-finance in alleviating poverty among the poor Indians. The project acknowledges the diverse contribution that micro-finance institutions have made towards socio-economic growth of Indians. In a number of decades since the concept of micro-finance was innovated in Bangladesh (Srinivasan, 2011), there has been a lot of benefits that various nations including India have really enjoyed (Kline and Sadhu, 2010). Among these include improved food supply, improved family incomes and economic power of households (RAO, 2006), and improved healthcare of Indians (Thorat, 2009), improved living standards, and improved health (Pradesh, 2010; CGAP, 2010).

A dominant trend in the Indian microfinance is witnessed in the funders and public sector banks, which have invested heavily in the Self Help Group (SHG) to provide loans to the poor (NABARD, 2010; Mostaq, 2010). More than 1.5 million groups have been formed and an estimated 16 million clients have received loans, making SHGs the largest microcredit operation in India by a large margin (Wegner *et al.*, 2010). As a worldwide movement, microfinance has gradually been a subject matter of not only practitioners but also donors, governments, banks, development agencies, corporations, foundations, civil societies, business communities, researchers, consultants, universities, and philanthropists (Renuka and Susan, 2011). However, these players face various challenges, which actually impede the achievements. The first challenge relates to sustainability (Sa-Dhan, 2008), which is commonly related to the cost of the overall project, and the second challenge relates to lack of capital requirements (RBI, 2010).

Thus, this project acts as a union between what funders of micro-finance projects in India wants and what prospective clients (poor population) are able to access. It is a project that tries to show that investors in micro-finance industry in India have to comprehend what is actually incomplete in the lives of the poor Indians and their environment, which should be accomplished. The project is undertaken on the basis that majority of rural Indians are still lagging in poverty

(Sinha, 2011; Seibel, 2010) and that the government would wish to encourage and engage stakeholders in economic sector to help in solving the problem. Thus, by engaging the entire fraternity of micro-finance funders, it would bring a common ground of understanding among the Indian community in tandem with emerging global developments.

## **2.0 Project Purpose**

Majority of researchers have attempted this topic. However, much weakness can be identified in their approach to emerging challenges, which if not well identified, can lead to poor delivery of future micro-finance support. In view of this study, the researcher is focused to bridge academic gaps related to: the future of micro-finance industry, merger of technology with the micro-finance industry, alternative solutions to alleviate poor populations in India, gender relations in women joining the micro-finance industry, and the prospects of health insurance services by micro-finance industry among others. Notably, the study is focused to explore and establish what previous studies have failed to anticipate in the micro-finance industry. By undertaking this study, readers as well as various stakeholders in the micro-finance industry will be able to understand the industry in regard to global changes in terms of: funding needs, funding factors, funding potentials of micro-finance organizations, future microfinance challenges and sustainable delivery of microfinance services. Since the world is increasingly change in regard to its needs due to increasing population and challenges, it would be well fit to conduct a study that takes into account current challenges in the Indian society as well as gaps in the academic literature. This is the main focus of the current study hence it will be highly possible to develop a comprehensive picture of how micro-finance industry in India can create a pro-active link with its clients and environments for sustainable growth.

To go about this study, readers need to understand that the global reach of micro-finance has been stretched (Singh, 2010; Sinha, 2012) hence there is a dire need to develop the capacity of local micro-finance institutions in India. The study needs to explore the topic in regard to: increasing gender equality needs, emergence and significance of technology industry in the micro-finance industry, alternatives to poverty alleviation among the poor Indians, and other health services that can be accrued from the current and future micro-finance institutions. Hence, it is a study whose focus is to ensure that India experiences sustainable micro-financing services regardless of global challenges. This will make the country's economic have space in the global

framework where globalization is quickly taking roots to drive national economies (Staschen and Bhattacharjee, 2010).

What is key within the purpose of this study is to help the larger portion of India, which is still unreached by micro-finance services to access the services (Heinnman, 2010). The purpose of study is to ensure that challenges that are experienced by the micro-finance institutions (Heinnman, 2010) are reconciled for sustainable delivery. Hence, it would be imperative to explore the questions, which none of the aforementioned studies, have attempted to address as highlighted below:

## **2.1 Study Questions**

1. What is the future of micro-finance industry in India?
2. What is the significance of micro-finance industry integrating with technology industry?
3. How can the micro-finance institutions reach out the unreached Indians?
4. Are there alternative ways to alleviate poverty situation among the poor Indians?
5. How can Indian men perceive and react to women given the opportunity of joining organizations in micro-finance industry?
6. Can the micro-finance institutions extend their services to health insurance to the poor Indians?

## **3.0 Project Description**

The description of this study follows what has actually been identified in its purpose through the use of key questions that needs to be addressed. The best way to fulfill this is to have an overview of what other studies says about the main dimensions of the questions above. In this line of reasoning, the first goal of this paper is to ensure that a greater percentage of poor Indians are effectively reached by existing and future micro-finance institutions. The second goal is to ensure that the services of micro-finance are diversified to shift its conventional role in changing the society lives only through financial support. Third is to ensure that the micro-finance institutions and its stakeholders understand some of the challenges that may hamper the delivery of effective services to the target and deserving population. Specifically, the goal is to expose how men would feel when women are empowered through the micro-finance services. The forth

goal is to help both the clients and providers of micro-finance services in India understand the essence of technology in achieving effective services. Lastly, the paper aims to justify whether the existing and future micro-finance institutions can help to achieve improved healthcare services among the Indians. In line with the aforementioned goals, the researcher proceeds to note the following objectives as the pillars of the study:

### **3.1 Study Objectives**

1. To explain the future of micro-finance industry in India in regard to existing socio-economic gaps and increasing human needs and poverty.
2. To find out and justify the significance integrating technology and linking of technology industry with micro-finance industry.
3. To suggest ways through which the current and future micro-finance institutions can reach the unreached poor Indians.
4. To explore whether there are alternative ways to alleviate poverty situation among the poor Indians other than full reliance on micro-finance industry.
5. To reason out how and why the Indian men would perceive and react when women join the micro-finance industry.
6. To establish whether it is possible for the micro-finance institutions to offer other health insurance services to the poor Indians.

### **3.2 Microfinance Outreach**

The researcher strongly believes that microfinance has proved its value in India as a safeguard against poverty and hunger (GTZ, 2008). Thus, it has direct connection to better life among those who need it most. Micro-finance is a weapon to eradicate poverty since it is a financial system that serves the poor with financial services in the most effective and productive way (Gibbons, 2006). However, the outreach of this noble program has not reached its optimal level in India. This state of things is worsened by the fact that substantial expansion of retail banking network to rural India and lending priority has never reached the real poor (Latifee, 2009). In the last 10years, India was one of the World's Largest Microfinance Markets. In 2010, the industry approximately served 81.7 million people with yearly credit demand by the poor of 600 billion rupees. However, only 20% of the poor population is estimated to have access to microcredit

(CGAP, 2010). In the year 2009, the proportion of microfinance clients in India grew following a global increase from 59 million to 76.6 million (CGAP, 2010). This figure is forecasted to increase up to 40% annually in future. Hence, such growth concentration necessitates the need for extending to unserved regions despite the associated risks including: mass defaults, over indebtedness, and negative risks of high competition (Ghate, 2009; GTZ & NABARD, 2011).

The Southern, Eastern, and Western regions of India have been penetrated most in that order. In line with reaching the unreached poor Indians, it is strongly imperative to focus future micro-finance penetration to the Central, Northern and North Eastern regions (CGAP, 2011). The need to increase the outreach level of micro-finance needs the adoption of technology to facilitate various operations between the micro-finance institutions with the clients.

### **3.3 The Future of Micro-Finance Industry**

In view of the global outreach, India is not an exception. Among the 92 million people reached by 2004, 81.5 million people were in Asia (Fernandes, 2005). Therefore, it is evident that India is one of the countries, which had a greater number of beneficiaries from microfinance industry. This makes it imperative to conduct a study to ascertain the sustainability of this industry in serving the rest of Indians. *Who* will actually take the lead as well as *how* and *where* the industry would head are two questions that would take the centre-stage of this topic by taking into account the interests and needs of the beneficiaries, providers and environment of the microfinance industry.

A number of institutions together with their relationship and cooperation in delivering micro-finance services need to be explored to reveal the extent to which they can collectively cope with future needs of the poor Indians. These should include cooperatives/credit unions, Non Governmental Organizations, government organizations, and commercial and savings banks (Sen and Batliwala, 2009). Every of these organizations have a collective role to play in ensuring that future micro-credit services are successfully availed to the poor Indians (Latifee, 2010). Succinctly, the future of microfinance services is a task that can be accomplished by one organization but a collection of the mentioned organizations.

As the global economic framework changes, it is highly perceived that the conventional models (Push-strategy) of offering financing services to the poor Indians are outdated (Latifee, 2010).

Instead, there is need to embrace the demand-driven models, which delivers financial services based on client. Mergers and diversification strategies can also be key to successful delivery of sustainable financial needs (Morduch, 2009; Annibale, 2006). Lastly, sustainability in this industry in India can never be achieved without formulating ways that guard the institutions against risks of defaulters (Annibale, 2006). In conclusion, it will be imperative to explore how India is prepared to address these issues in ensuring that the industry remains vibrant in delivering to the rest of its poor population in the future.

### **3.4 Micro-Finance Linkage with Technology Industry**

Technology has been widely perceived and proved as the platform for economic development (Finacle, 2010) hence the micro-finance industry is not an exception. It is unfortunate that this industry has not adequately adopted technology in the delivery of its services hence leaving much potential of the industry and its clients untapped. India in particular is still lagging behind in technological application in the microfinance industry despite widespread adoption of mobile communication and other computer-based applications in various organizations (Finacle, 2010). Based on this view, it is significant reveal how technology can support effective delivery of microfinance services. Here, it will be reasoned how technology can actually facilitate the process of financial services to the remote regions of India, thereby increasing the proportion of people reached. It will also be reasoned how the use of technology can help the industry carry out efficient transactions with increased credibility, integrity, and efficiency despite changing geographical, economic, political and social conditions of Indian states (Finacle, 2010).

### **3.5 Alternative Solutions to Alleviate Poor Populations in India**

There has been much reliance on microfinance as the sole source of helping the poor Indians come out of their poverty (James *et al.*, 2010). However, global increase in the number of countries and people in need of these services depicts a scenario in which resources in the microfinance industry are going to be strained (Kishor and Johnson, 2010). Hence, the best remedy is to look into how the industry can be complimented by alternative poverty alleviation initiatives. Even though this can be very rare in India (Basu and Brij, 2005), it will be imperative to study the industry and its compliments so as to help the government of India develop sustainable poverty alleviation programmes for its poor citizens. By engaging with the poor and

stakeholders in poverty eradication organizations, it would be possible to hear their views on these alternative ways, if any, other than relying solely on microfinance.

### **3.6 Gender Relations in Women Joining the Micro-Finance Industry**

India is a country, which has the masculine tradition where males are preferred to females (National Family Health Survey, 2011). The capacity of females has been compromised in a number of dimensions including birth preferences, education, and employment among others (Ramussen. *et al.*, 2010). Males are seen as the sole breadwinners as wives are expected to remain under the control of their husbands (Kishor and Johnson, 2010). Hence, the concept of microfinance taking roots in India requires researchers to answer how male-counterparts would perceive it. Based on this connotation, researching in this topic will justify how Indian men would feel when their women counterparts are financially empowered by microfinance industry. Hence, going a head with this study would reveal the bottom-line of their views towards the idea instead of making subjective assumptions based on past cultural views.

### **3.7 Prospects of Health Insurance Services by Micro-Finance Industry**

The literature reveals that the poor are not familiar with the concept of health insurance (Shakti, 2008) despite heavy costs that they continuously incur when they fall sick (Saha and Metcalfe, 2011). There has also been a perception that health insurance cover only applies to those employees in the formal sector (Sen and Batliwala, 2009). Based on these facts, it is evident that there is need to investigate what microfinance providers think towards offering health insurance to their clients. It is factual that the concept is not new in this industry though it is still confined to a few areas in India (IIPS and Macro International, 2007). Based on the fact that microfinance has not penetrated a larger part of India (EDA/APMAS, 2010), it is imperative to get the views of both providers and clients on the issue so as to develop a sustainable industry where clients are healthy for continued mutual support and growth of the industry.

### **3.8 Benefits of the Study**

Generally, it can be noted that many benefits will be experienced in the Micro-finance industry in regard to their relationship with the clients as well as their sustainability in the delivery of services to a greater proportion of the poor Indians. The beneficiaries of this project, if

undertaken, will not only be the providers of micro-finance industry but also the clients who are the major recipients of the services. The institutions in this industry will actually understand some of the emerging changes and challenges in the poor Indian population, thereby allowing them to have sustainable delivery of services to the remaining Indian population. The clients (poor Indian) would also be able to understand some of the challenges that face the providers (micro-finance institutions) in the delivery of financial support to the needy. As a result, the study would be beneficial in establishing balanced perception and actions between the micro-finance industry and the poor Indian population. A part from helping the major players in the micro-finance industry understand one another for a sustainable growth and delivery of services, the study will benefit the academic fraternity owing to large gaps in the literature as already been identified in the project's purpose, goals, questions, and objectives.

#### **4.0 Project Methodology**

The above issues need a strong and objective approach in which the researcher use existing information as well as observed responses to achieve the research objectives, goals and answer the research questions. This is a study that needs to gather the views of many respondents from various parts of India so as to draw conclusion in regard to the research questions. To facilitate the whole process, it will be imperative to adopt quantitative methodology in data collection and analysis. In data collection, the researcher will have to develop questions in a manner that limits collection of irrelevant data.



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