

INNOVATIONS IN MICROFINANCE SECTOR IN INDIA

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“A noble purpose inspires sacrifice, stimulates innovation and encourages perseverance”

-Gary Hamel

Abstract

Over a period of time Indian banking industry has witnessed a lot of development. One of the crucial phases of development has been evolution of the concept of 'microfinance' which simply means provision of financial products and services to the marginal sections of the society. For upliftment of weaker sections numerous microfinance institutions have been set up which are providing different types of financial aid. With the gradual increase in number of MFIs the competition in this industry is becoming tough. Therefore there is a need to introduce innovative microfinance products and services to the customers. Through this paper an attempt has been made to study some of the innovative steps adopted by few MFIs in India.

1. INTRODUCTION

Microfinance is not a new concept. Rather informal sources of lending have been prevailing in our society since ages. The main point of difference between informal sources of finance and microfinance is that in the concept of microfinance the aim is to provide financial assistance to the needy at minimum possible costs. Microfinance simply means providing financial services and products to poor sections of the society. With the advent of new technologies and development in India, microfinance sector has also been developing making it difficult for different Microfinance Institutions (MFIs) to survive. Some of the major players in Indian Microfinance sector are Bandhan Financial Services Pvt Ltd., Annapurna Microfinance Pvt Ltd., DishaMicrofin Pvt Ltd., Arohan Financial Services Pvt Ltd., Cashpor Micro Credit, Equitas Microfinance Pvt Ltd., Asirvad Microfinance Pvt Ltd.

2. OBJECTIVE

The main objective of this paper is to study the innovations that have taken place in microfinance sector in India and to study that how these innovations have supported the growth of various Microfinance institutions in India.

3. RESEARCH METHODOLOGY

For the purpose of this paper, secondary data has been procured from various reliable sources. Numerous journal articles, news articles and books have been referred for the study.

4. Review of Literature

RBI characterizes “microfinance as the arrangement of thrift, credit and other money related administrations and results of little adds up to the poor in provincial, semi-urban and urban zones for empowering them to raise their wage levels and enhance their ways of life”.

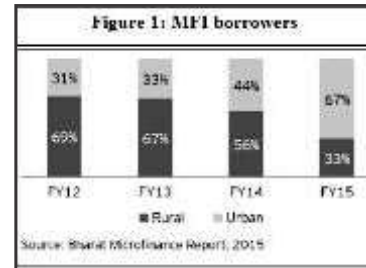
Microfinance is not merely limited to loans but extends to provision of various financial services like facilitating the creation of Self Help Groups (Hoque et. al., 2011). An empirical study concludes that

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Microfinance Institutions and Self Help Groups play a crucial role in delivering microfinance services which help in development of rural areas of the nation. The roadmap for implementation of Self Help Group programmes is very vast and will be implemented at a slow pace (Kumar Vipin et. al., 2015).

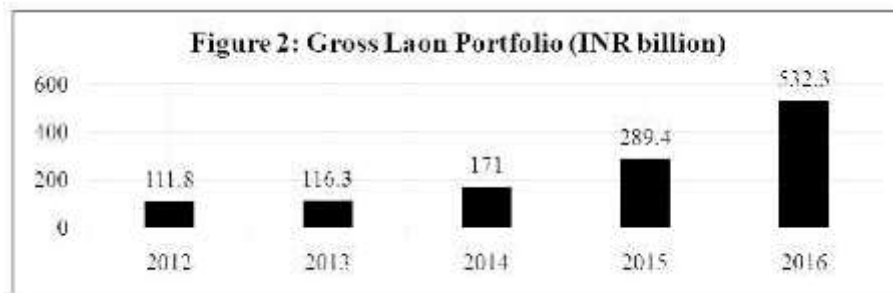
Few experts have suggested that working of Microfinance Institutions should be carried out in combination with technology. Technology enable microfinance services helps the provider in accessing more customers at lower cost(Matthaus andPischke, 2008).

Initially Microfinance Institutions were working for rural areas primarily but with the passage of time the focus has been of provision of microfinance products and services to urban areas as well. As shown in Figure 1 the share of urban customers increased from 31% in 2012 to 67% in 2015.



Year	Description
1974	Shri MahilaSewaSahakari Bank was set up with an objective of providing financial assistance to women.
1984	NABARD introduced Self Help GroupBank Linkage Programmes (SHGBLP) which acted as an important step to reduce poverty levels within the nation.
2000	A fund named as Micro Finance Development Fund was created in NABARD was created for scaling up financial activities with special focus on improvement of Self Help Group Bank Linkage Programmes (SHGBLP) in rural India.
2002	The provisions laid down for unsecured loans to Self Help Groups was brought at par with other types of secured loans.
2004	Microfinance loans were added in Priority sector lending by Reserve Bank of India.
2006	Some MFIs indulged in unethical practices by charging high rates of interest from borrowers. Consequently government ordered closures of some MFIs.
2007	Private Equity players entered into Microfinance Sector.
2009	Microfinance Institution Network (MFIN) was set up and all the NBFC-MFI units were regulated by RBI in India.
2010	Crisis in Andhra Pradesh came into light where unethical debt collection practices prevailed leading to more number of suicide cases. To curb this menace, Government passed an Ordinance and MFI activities in Andhra Pradesh were brought down to a stagnation for a period of time.
2014	Bandhan Microfinance Limited was granted a license to operate as a bank by RBI.
2015	MUDRA bank was launched by Government of India.
2016	Slump in Microfinance sector in India due to demonetization.

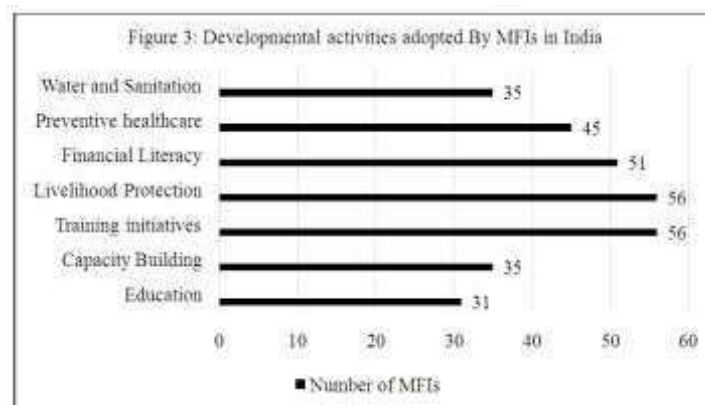
Figure 2 shows amount of gross loan disbursed during financial year 2012 to 2016 in India. During Financial Year 2016, the gross loan portfolio of MFIs grew at a Compound Annual Growth Rate of 48 % reaching INR 532.3 billion.



Source: MFIN Micrometer, May 2016

5. Innovations in Microfinance

In today's competitive world innovation has become a necessity. Since microfinance sector is developing as an industry which provides immense opportunities for growth, so it becomes imperative for MFIs to innovate (Mohan and Potnis, 2010). Considering this, numerous MFIs initiated some activities beyond making loans available to the poor sections of the society. Developmental activities like improving financial literacy, capacity building, efforts towards providing education, livelihood protection etc are being carried out by different institutions. As per a report published in 2015, many MFIs in India are actively engaged in providing innovative services to the society(Figure 3).



Source: Bharat Microfinance Monitor 2015

Some forward thinking initiatives adopted by Indian MFIs are described below.

- **Financial Literacy Program:**

Bengaluru based Company Ujjivan Financial Services Private Limited and a not-for profit Organisation Parinaam Foundation collaboratively developed a financial literacy program for people of low income groups. The main focus of the program was to educate people about financial management as there were rising cases of coercive debt collection practices (Sproat& Macmillan,

2017). This program was implemented by using twin approach: Sankalp film and Diksha. Sankalp was a film containing two stories of about fifteen minutes which depicted the benefits of microfinance and the cases of excessive borrowing. With the help of Parinaam Foundation the film was made with animated scripts and attractive characters to captivate the interest of the viewers. This program came out to be very successful as shown in Table 2.

	CENTER LEADER FUNCTIONS (400-800 customers at each meeting)	CENTER MEETING (using TV and portable DVD players)	SHOWS ON CABLE TV
NORTH	<ul style="list-style-type: none"> • 14 functions • 4,999 customers 	<ul style="list-style-type: none"> • 3,558 shows • 57,853 customers 	<ul style="list-style-type: none"> • 4 branches • 9,100 customers
SOUTH	<ul style="list-style-type: none"> • 26 functions • 17,625 customers 	<ul style="list-style-type: none"> • 5,176 shows • 74,956 customers 	<ul style="list-style-type: none"> • 35 branches • 1,32,917 customers
EAST	<ul style="list-style-type: none"> • 30 functions • 16,960 customers 	<ul style="list-style-type: none"> • 3,953 shows • 50,789 customers 	<ul style="list-style-type: none"> • 43 branches • 1,49,416 customers
WEST	<ul style="list-style-type: none"> • 7,948 customers 	<ul style="list-style-type: none"> • 17,908 customers 	<ul style="list-style-type: none"> • 6000 customers
Source: 'Financial Literacy Program on Debt Management' Report issued by Unitas Labs			

• **Affordable rural education centres:**

Grameen Koota, in partnership with Hippocampus Learning Centres, opened new, affordable rural education centres seeking improved school results for very low-income children in Karnataka. Within the first month and a half, over 600 children enrolled across the three programs in 18 centers (Jayadeva and Rao, 2012). The learning centres adopted three types of programs: The Kindergarten Program (developed for children between 3 and 5 years), Primary Education Program (developed for children between 6 and 13 years) and Tuition / Coaching Program. All the three programs have proved to be of great advantage to the society and to the respective MFI as well.

• **Technology based risk management framework:**

Dehradun based Microfinance company Mimo Finance has developed a technology based risk management framework. It innovated a model that will help other microfinance companies in securing data and to identify customer specific risks. Building a formal risk management culture at MFIs begins with a formal 'Risk Health Check' of the MFI data and processes, followed by the identification of KPIs (Key Performance Indicators) and Risk Metrics to culminate into an Analytics-based Decisioning Framework.

6. **Recommendations:**

Microfinance Institutions need to introduce innovative products and services in order to hold a strong grip on the microfinance industry. Some recommendations for innovating products have been listed below:

- In the time period when microfinance industry was at a nascent stage, any new financial products introduced for weaker sections was accepted well but as the market grows MFIs should understand the needs of the customers and should modify the products accordingly.

- MFIs need to understand the environment well before offering a product in the market.
- Information technology has gained unparalleled heights not just in India but in the whole world. Consequently MFIs can combine technology with the services for enhancing the quality of service provided to customers.
- Understanding of demographic features of population and cultural and social environment also enable MFIs to identify the gaps in their offerings and innovate products as per the needs and preferences of people.

7. **Conclusion:**

The importance of Microfinance Institution in a country like India should not be undermined as they help in upliftment of weaker sections of society. Gradually microfinance has developed as an industry where players need to innovate products and services for both social as well as profit motive. Different MFIs like Ujjivan, GrameenKoota and MIMO Finance have introduced innovative products to the customers and have been very successful in their respective campaigns. For developing innovative products MFIs need to consider environmental factors, demographics factors and technological factors. In a nutshell it can be concluded that microfinance is at a growth stage now and companies need to get innovative to survive in the competitive world.

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