

# Microfinance Sector in India: Evolution and Current Challenges

Arpita Amarnani \*  
Neeraj Amarnani \*\*  
Sarla Achuthan \*\*\*

*"We got rid of colonialism, we got rid of slavery, and we got rid of apartheid – everyone thought each one of them was impossible. Let's take the next impossible, do it with joy and get it finished with and create a world free from poverty. Let us create the world of our choice."*

**Mohammad Yunus<sup>1</sup>**

Microfinance refers to small-scale financial services – primarily credit and savings – provided to people who farm or fish or herd; who operate small enterprises or micro enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at local levels of the developing countries, both rural and urban (Robinson, 2001). Microfinance services can, overall, help low-income people reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes and improve the quality of their lives and of those dependent on them. It plays an important role in

---

<sup>1</sup> "We Can Create a World of Our Choice," seventh Nelson Mandela Annual Lecture delivered in Johannesburg on July 11, 2009, on the eve of the 91st birthday of Nelson Mandela. [http://www.nelsonmandela.org/images/uploads/Nelson\\_Mandela\\_Annual\\_Lecture\\_LT.pdf](http://www.nelsonmandela.org/images/uploads/Nelson_Mandela_Annual_Lecture_LT.pdf)

\* Faculty, Institute of Management, Nirma University, Ahmedabad

\*\* Faculty, Institute of Management, Nirma University, Ahmedabad

\*\*\* Director, B.K. School of Management, Gujarat University, Ahmedabad

bringing these poor people into the main stream of the economy and thereby participating in the process of nation building.

## **Indian Microfinance Sector**

The Indian microfinance presents a story of strong growth. Its growth performance was impressively sustained through the recent global liquidity crunch and continued at an increased rate in the second half of 2009. With one of the highest growth rates globally since 2002, the Indian microfinance sector has emerged as the most socially conscious, commercially viable, and financially sustainable worldwide. According to a MIX market study, India has one of the lowest average loan sizes of around \$150 as well as the lowest yield on portfolio of 21.2 per cent.<sup>2</sup> The small loan size combined with low interest rates testify to the social inclination of Indian MFIs, which seek to genuinely foster financial inclusion among the poor and alleviate poverty. However, the year-on-year growth rate has been declining, illustrating the increasing maturity of the sector. Though decreasing, the growth rate is still high and is reflective of the industry approaching a more sustainable rate of expansion rather than a reversal of the trend observed thus far. As the industry matures, it is also nearing an inflexion point and is considering more sophisticated growth strategies through diversifying product offerings, client targeting, and creative financial and non-financial solutions which will allow the sector to grow at a continuous pace while preserving its solid performance and abiding by its social mission.