

India's development through microfinance institutions and loans

by Vipul Ranjan Khare

India gained independence in 1947, and as I write this article, we are in the 78th year of Independence. But India's per capita income is at around just Rs 1.72 lakh in 2022-23. As per the UN's HDI index 2023-2024 report, India is ranked among the bottom-most nations at 134th position out of 193 countries. Keeping in mind our target of becoming **'Vikshit Bharat'** by 2047, I would like to outline one key policy measure that could go a long way in achieving that target.

India's development through strengthening of Microfinance institutions and loans

The modern microfinance institutions and loans came into prominence after the establishment of Grameen Bank in Bangladesh by Muhammad Yunus in 1976. For his pioneering work, he was awarded the Nobel Peace Prize in 2006. Microfinance loans are one of the essential tools to ensure the development of the last mile. This model of Microfinance institutions, if extensively implemented and penetrated across the length and breadth of India, has potential to pull millions of people out of poverty in the next 15 to 20 years. Despite the presence of many microfinance institutions, penetration of microfinance loans in India is really low, which is a great cause of concern.

In India, the biggest issue with microfinance loans is that both public and private sector commercial banks hardly focus on such loans. There are some microfinance institutions that give loans in these segments, but their rate of interest is exorbitant, hovering around 25%. The biggest irony here is that when even a well-to-do affluent person would not think of taking any loan with such a high rate of interest, then how can we expect people who are

living at the margins to go for high-interest loans?

To overcome such issues, one crucial step which the RBI (Reserve Bank of India) can take is to tighten the screw around commercial banks (both public sector and private sector) to make sure that these banks also actively participate in giving loans along the lines of microfinance institutions. Also, these banks should work together to ensure that the rate of interest is brought down to affordable levels of around 10% to 12%. Ultimately, if millions continue to live in poverty, India cannot truly aspire to become a prosperous nation. After all, it is human capital that drives transformative progress in any society.

Giving such loans will ensure that marginalised people find different avenues that would help them to come out of poverty. Once lifted out of poverty, these people can create remarkable opportunities for themselves, society and for the nation. Indeed, it is a risky proposition for any bank to offer loans to destitute individuals, as most may lack a good credit history. But as with any system, here also we can have certain checks and balances which if diligently implemented, will keep NPAs (Non-performing assets) at a controlled level.

We also need to remember, poverty is not created by the person who is poor but by the system, i.e., it is an externally imposed phenomenon. So it becomes the obligation of the system to alleviate poverty. Human creativity and human capacity are limitless and people deserve a fair platform that enables them to realize their potential. This is only possible once they are pulled out of poverty. Strengthening microfinance infrastructure in India is one of the most important ways that will definitely make India developed and prosperous, and thus realize our dream of 'Vikshit Bharat' by 2047.



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