Micro Loans in India

What is the issue?

Non-banking financial groups have gained attention for providing easy and hassle-free micro loans online, with the aid of technology.

What is micro-financing?

- Microfinance refers to the provision of basic financial services for low-income but economically active people.
- The idea is to offer loans that are easy to procure and require minimum documentation.
- Micro loans or micro financing is seen as an important tool in uplifting the weaker sections of the society.

How did micro-financing evolve?

- The concept of micro-finance came into existence way back in the 1970s.
- In the 1970s, Muhammad Yunus, professor of economics, began to hand out small loans in his home country Bangladesh.
- He founded the Grameen Bank in 1983 which today is active in over 70,000 villages in Bangladesh.
- Taking inspiration from the micro-financing reforms in Bangladesh, NABARD was developed in India.
- [NABARD - National Bank for Agriculture and Rural Development]
- Additionally, micro-financing was also developed for rural and women development through SEWA (Self-Employed Women's Association) in Gujarat, back in 1974.
- Several other associations then grew to provide micro-loans.
- What began as a micro-credit system, slowly altered into a 'financial system' mechanism.
- It soon enabled everyone from rural to urban population to gain access to the micro-loans system in India.
- It was not just limited to banking entities and NGOs but further expanded to non-banking financial entities.

What is the current scenario?

- Given the pandemic situation, there are uncertainties to economic growth in India.
- So, banks shy away from providing loans to the economically backward sections, owing to higher risks.
- But non-banking financial groups continue to provide easy and hassle-free micro loans through an automated process.

How does it work?

- It is done with the help of the application of Machine Learning in the loan procurement and disbursal process.
- The companies can easily access and analyse the borrower’s vast digital footprint.
- This helps them to evaluate the loan repayment capacity of an individual.
- The technological term for this form of data is ‘alternative data.’
- It is faster to process, unlike the traditional credit score.
- High internet penetration and smartphone availability have also made people aware about the easy process of micro loan procurement.
- In terms of customer support, ‘bots’ have been specifically designed to answer all the queries of the borrowers with a single click.
- With this rapid development and digitisation, there has been a prominent growth in micro loans acquired by the common people.
- Micro loan helps the unorganised sectors/businesses grow with easy access to credit.
- Besides helping in individuals' growth, micro-finance contribute to the escalation in the growth metrics of the economy as a whole.

Source: BusinessLine

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