



Evaluating the role of microfinance in India

Sheetal, Sunil

Assistant Professor, Skill Faculty of Management Studies and Research, SVSU, Palwal, Haryana, India

Abstract

Microfinance institutions in India play a critical role in development. Microfinance is a vital source of financial services for individuals and small businesses that do not have easy access to banks and related services. It offers clients financial services such as banking for sole proprietors, small businesses, and group models. Many supporters of MFIs feel that such access will assist the poor in escaping poverty. Poor people manage their finances more effectively, seizing economic opportunities while controlling dangers. The scenario has shifted from microcredit to microfinance to "financial inclusion." The role and models of microfinance in India are discussed in this article.

Keywords: Microfinance, microcredit, entrepreneur, financial inclusion, economic opportunities

Introduction

Microfinance is the provision of financial services to the underprivileged through credits and deposits. Microfinance in India is gaining traction for long-term development. Microfinance is regarded as a significant tool for poverty alleviation and poor livelihood. It is also seen as a method of financial inclusion in order to promote the country's long-term development. Dr. Mohammad Yunus' innovation in Bangladesh, which is now known as the Grameen Model, raised awareness in many nations, particularly in India, that it could be used to eradicate poverty. The microfinance sector is currently undergoing massive innovation and claims to be an emerging sector, particularly in terms of financial inclusion.

Objectives of the Research

1. To understand the meaning of microfinance in India
2. To explore microfinance's function in India
3. To analyse Indian Microfinance Models

Research Approach

Based on a secondary data source, this study is conceptual in nature. The review of literature and conceptual analysis are highlighted through the use of secondary data. The reports of the Role of Microfinance In India serve as the study's secondary data sources.

Definition

Microfinance may be defined as the "Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards". Further microfinance can also be explained in the following way "Microfinance is purveying financial services from institutional sources in informally formal route, in a flexible, responsive and sensitive manner which otherwise would not have been possible for the formal system to provide such services because of low scale of operations, large clientele, frequency of transactions and high transaction cost"

Sinha (1998) states "microcredit refers to small loans whereas microfinance is appropriate where NGOs and MFIs

supplement the loans with other financial services (savings, insurance etc)".

Literature review of microfinance

1. **Malcolm Harper (2002)** in his paper titled "Grameen bank groups & self-help groups; what are the differences?" showed the advantages & disadvantages of both the system.
2. **Bindu Ananth (2005)** In her study, "Financing Microfinance - ICICI Bank Partnership Model," she examined the partnership model of funding microfinance institutions. The paper compared three microfinance funding models. Self-help group bank connection model, financial intermediation by microfinance institutions, and partnership model - MFI as a servicer were the three models.
3. **K. Manoharan Nair and Girija B (2005)** observed that experience has proven that many poverty reduction projects implemented through organized credit channels have not been successful. As a result, in order to bridge the gap between the demand and supply of money in the lower rungs of the rural economy, NABARD's micro finance programmes have made a smooth entry into the role of micro finance in eradicating poverty and empowering women to manage enterprises.
4. **Bhole B. & Ogden S (2010)** compared the presence of strategic default between group lending & individual lending. Secondary data was considered for the purpose of the study.
5. **Farhad Hossain & Tonya Knight (2008)** they examined the function of microfinance institutions (MFIs) in promoting rural livelihoods in central Bangladesh in their empirical study on microfinance. The paper examines contemporary arguments against microcredit and demonstrates that, despite some criticism, microfinance plays an important role in improving the livelihoods of impoverished rural populations.

6. **Sudhansu Kumar Das (2006)** investigated how SHGs fit into the rural credit distribution system. His results suggest that SHG model of micro finance has tested which is effective in addressing credit need of rural poor. Nonetheless, there are other problems that essentially limit how well the groups operate. The marginal workers who are generally landless and impoverished in rural areas make up this group. The impoverished are unable to make significant contributions to the group's common fund because of their low income and inadequate saving. As a result, SHGs constantly struggle with a lack of funding. Due to their precarious financial situation, SHGs are constantly in need of outside funding through bank connections.
7. **Zuzana Harmincova & Karel J (2014)** In their article "Microfinance around the world – regional SWOT Analysis," the authors compared how microfinance operated in several developing global regions and examined the general efficiency, efficacy, strengths and weaknesses, possible risks, and opportunities in the microfinance markets.
8. **Gurumoorthy (2000)** outlined the Self Help Group (SHG) as a workable substitute for achieving rural development goals and obtaining community involvement in all initiatives related to rural development. It was a planned system designed to give rural women microcredit based on the value of their group savings without requiring any collateral security in order to inspire them to start their own businesses and turn them into enterprising women.

Micro – Finance in India

The banking policies, practices, and systems in place at the beginning of the 1980s were inadequate to satisfy the needs of the underprivileged. Poor people typically turn to the unorganized sector when they need loans. NABARD suggested implementing substitute policies, systems, and processes to protect the impoverished from the predatory practices of moneylenders. In the banking industry, microfinance was thereby introduced.

The provision of a wide range of financial services, including deposits, loans, payment processing, money transfers, and insurance, to low-income and impoverished people and their microenterprises is known as microfinance. Financial services (savings, insurance, funds, credit, etc.) given to low-income and impoverished clients in order to help them increase their income and, consequently, improve their standard of living are known as microfinance.

In developing nations such as India, microfinance is considered a useful instrument for achieving socio-economic advancement. It is anticipated to have a major impact on development & poverty reduction. Mohammed Yunus received the Noble Prize for bringing the idea of microfinance to Bangladesh through the founding of the Grameen Bank. Microfinance and microcredit are not the same. A bank or other legally recognized organization may lend modest amounts of money as microcredit, but microfinance encompasses a wider range of services, including transfers, insurance, savings accounts, loans, and microcredit loans.

Role & Significance of Micro-finance

Micro-finance contributes to social & economic development of the nation in the following ways:

1. Because of their low income and incapacity to handle banking processes and documents, poor people are unable to receive banking services. A wide range of financial services, including deposits, loans, payment services, money transfers, and insurance, can be given to low-income households and micro-enterprises through micro-finance.
2. Microfinance institutions, through their NGOs, encourage disadvantaged individuals to save. The financial resources generated by bank savings and microcredit are used to make loans and advances to members of Self Help Groups (SHGs). Thus, microfinance institutions aid in the mobilization of funds and their use for the benefit of their members.
3. Loans from the traditional banking system need collateral or a counter guarantee, which poor individuals cannot provide and hence cannot obtain a loan. Again, high interest rates, as well as procedural and documentation requirements, hinder impoverished individuals from seeking loans from banks. Microfinance removes all of these barriers by providing low-interest loans to rural and impoverished people.
4. Micro-finance allows the poorer sectors of society to obtain loans at lower interest rates, allowing them to start small enterprises, grow their businesses, and move out of poverty while remaining independent and self-sufficient. It encourages self-sufficiency by assisting in the development of long-term financial independence among the lower sectors of society.

Self Help Groups (SHGs) serve as intermediaries for microfinance. Women form more than half of all Self-Help Groups (SHGs). They now have better access to financial and economic resources. It is a step towards greater female security. Microfinance thus economically and socially empowers impoverished women.

Models of Microfinance

Grameen Model

This is one of the successful microfinance models. The model was started by a group of five people. A mandatory contribution will be made to the Collective Savings and Insurance Fund. Each participant maintains his or her own individual savings and loan account at the bank. After contributing to the group, participants will receive an individual loan from the bank. The responsibility to repay the debt lies with the person himself. Loans are available for a period of 6 months to 1 year and repayments must be made weekly. Bank employees make periodic visits to monitor financial records and transactions. This model is used in 40 countries in Asia, Africa and Latin America.

Joint Liability Group Model

There are four to ten people that make up this group. Group members are not required to have their own savings fund in order to get a bank loan secured by a mutual guarantee. Each member is contractually obligated to repay whatever loans they have taken out on behalf of the other members. Many microfinance companies in India operate according to this strategy. In this strategy, empowering growth is

incredibly slow. This model is being adopted by numerous other nations as well.

Individual Lending Model

An individual does not need to be a member of a group to obtain loans on their own. Financial institutions are required to keep a careful eye on each individual's borrowing situation. It works well for bigger, production-based businesses located in cities. Many developing nations, including Egypt, Indonesia, Senegal, and India, utilise this strategy.

The Group Approach

Financial institutions oversee the complete group approach financial process. Group management is used to oversee tasks like loan payback, savings, and loan repayment. Ten to twenty members might regularly save money, which would be combined into a shared fund. Financial institutions issue the loans under the group's name. The financial institutions create the repayment schedule for the group, and field employees come by to check on the repayment process on a regular basis. This approach is referred to as the SHG Bank Linkage Programme in India, and it is a widely used model.

Village Banking Model

This idea was introduced in Bolivia in the 1980s by the Foundation for International Community Assistance. A group of 30 to 100 low-income people who wish to raise their level of living organise a village bank. The bank lends money to its members after receiving capital from the MFIs. Each bank member's total savings is linked to the lending amounts. We make weekly installment payments on our debts.

Self help group Model

The SHGs are unstructured, uniform groupings with ten to twenty members apiece. Village-level NGOs, bank employees, and other institutions establish these organizations. Each organization is given a name, and its members elect a leader, cashier, and secretary to oversee group operations. The members often engage in voluntary savings. The amount of savings to be placed in the group account is decided upon by consensus among the group members. These funds are utilized for low-interest, rotating internal loans.

Regulation of Microfinance Industry

Because of excessive debt, the 2010 Andhra Pradesh crisis sent the microfinance sector into a fall. This facilitated the Reserve Bank of India's formation of the Malegam Committee. the implementation of the Andhra Pradesh Microfinance Ordinance 2010, which severely curtailed micro lending activities and caused a sharp decline in loan repayments. The microfinance institutions suffered significant losses as a result of the low payback rates. The Reserve Bank of India formed the Malegam Committee as a subcommittee to address the issue. The committee examined the shortcomings in interest rates and collecting procedures. The RBI adopted the 2011 norms that the Malegam Committee had suggested. The rules, which offer a legal framework for microfinance institutions, have been revised and drafted as the Microfinance Institutions (Development & Regulation) Bill 2011.

Conclusion

According to this article, microfinance is important in India. It should be included into the urban sector to support rural areas and offer more efficient, quick, and reasonably priced financing options. The use of infotech in microfinance is commendable, and with the development of computer and communication technology, it may be converted into an easy-to-use tool that rural residents can adopt and use to obtain funding for proposed projects that will realise their vision of a rural economy. Therefore, by combining microfinance with information technology, the rural economy may undoubtedly aid in the expansion of the national economy.

References

1. Robert Peck Christen, Richard Rosenberg & Veena Jayadeva. Financial institutions with a double-bottom line: implications for the future of microfinance. CGAP Occasional
2. Feigenberg, Benjamin; Erica M. Field; Rohan P&e. "Building Social Capital Through Micro Finance". NBER Working
3. Rutherford, Stuart; Arora, Sukhwinder. The poor & their money: micro finance from a twenty-first century consumer's perspective. Warwickshire, UK: Practical Action, 2009.
4. Hermes N. Does microfinance affect income inequality? Applied Economics, 2014.
5. Kh & ker, Shahidur R. Fighting poverty with microcredit: experience in Bangladesh. Dhaka, Bangladesh: The University Press Ltd, 1999, 78.
6. Harper M. Grameen bank groups & self help groups: What are the difference? ITDG Publishing, 2002, 1-20.
7. Ananth B. Financing microfinance – the ICICI Bank Partnership model. Small Enterprise Development, 2005:16(1):57-65.
8. Bedson J. Microfinance in Asia: Trends, Challenges & Opportunities, 2009.
9. Melbourne, Australia: The Foundation for Development Cooperation.
10. Bhole B, Ogden S, "Group lending & individual lending with strategic default". Journal of development Economics, 2010:91(2):348-363.
11. Rupapara B, Patoliya J. Problems faced by Microfinance Institutions & Measures to solve it. LAP LAMBERT Academic Publishing, 2012.
12. Sa-Dhan. Financial Inclusion: A study on the efficacy of banking correspondent model. Delhi: City Foundation, 2012.
13. J&a ZH. Microfinance around the world - regional SWOT Analysis. Prague: MPRA (Munich Personal Re PEc Archive). The Indian Banker: I.B.A. Publication, 2014.
14. Bank Quest: The Journal of Indian Institute of Banking & Finance
15. Kurukshetra: A Journal on Rural Development - Govt. of India Publication
16. <http://indiamicrofinance.com/microfinance-india-2016-outlook.html>
17. www.microfinancemix.com