

ROLE AND SIGNIFICANCE OF MICROFINANCE IN INDIA

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ABSTRACT

Microfinance is not a traditional part of formal financial system, it plays a crucial role in addressing poverty and fostering social development, which especially uplifts the status of women in our country thus they can become self-reliance. This Research paper narrates the theoretical framework of microfinance institutions in India. This research study made an attempt to pinpoint the significance of microfinance in the development of the rural area. Through an analysis of microfinance schemes, this research paper seeks to shed light on their contribution to rural development, and effectiveness of microfinance in promoting economic growth. This research paper also concludes that weaker section of Indian economy which used dreadful methods for earning credits through lending. So, microfinance programmes plays a significant role while focusing on the need of the poor people and improve their standard of living which contributes in economic growth and overall inclusiveness in Indian Economy.

KEYWORDS: *Microfinance, Schemes, Rural Development, Self-Help Groups, Financial Inclusion, Economic Opportunities.*

Introduction

Microfinance is defined as financial intermediation such as savings account, insurance funds and credit provided to poor and low income people, an opportunity to become self-reliant by providing a means of saving money, borrowing of money and insurance, as a resulting enhancing their standard of living. It plays a major role in the economic development of India. It acts as an anti-poverty vaccine for the people living in rural areas. It seeks to help economically disadvantaged communities increase their assets and financial resilience at both the household and community levels. According to the report of the year 2018, majority of the population still resides in rural area with lack of facilities and have minimum amount of development. They have obtained only 65.97% officially from recognized source. Approx 60 to 65% of population in India which is the soonly largest populated country, depends agriculture sector, consequently leads which leads to under-employment and that in consequence further leads to India as a low per capita income country. The growth of output in any economy depends upon the increase in proportion of savings and investment to a nation's output of goods and services. The financial system and financial institution help in division of raising current income into savings or investment. The Indian financial system is characterized by coexistence of formal institutions, such as banks and non-banking financial companies, and informal financial markets, which are comprised of individual money lenders, unregulated associations, and enterprises operating outside from the formal regulatory framework.

According to Reserve Bank of India, 'microfinance provides financial services to the poor, enabling them to improve their economic circumstances and break out of the poverty cycle. It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfer, counselling, etc.'

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Hence, by definition, Microfinance is the business of giving tiny loans to the people like unemployed or low-income individuals, who do not have opportunity to access formal banking services or have no other means of gaining financial services.

Review of Literature

The Role of Microfinance in India, published jointly by Rajesh Babu Dasari, Naratejaswini, Jeerala Umakanth in 2019- This paper was based on conceptual study of Microfinance, it mainly aims at Role of Microfinance in India and models that deals with Microfinance.

A Conceptual study of Micro Finance in India, Published by Ms Neha Saini, Dr Bhupendra Kumar, OP Pathak in International Journal of Marketing & Financial Management 5 (11), 2017- This research paper successfully analyse the concept of Micro finance. And aims at identifying the current status and role of microfinance in development of India. But this paper fails to provide practical solutions which limits the growth of Micro Finance.

Microfinance in India: Contemporary issues and challenges, published by Sibghatullah Nasir, in Middle-east journal of scientific research 15 (2), 191-199, 2013-Firstly, this paper analysed the issues and consequence related with microfinance, then This paper offers practical solutions to address microfinance challenges in India and overcoming microfinance issues in India as well.

Book titled Problems faced by Microfinance Institutions & measures to solve it, Written by Brijesh Rupapara and Jitendra Patoliya- This book covers the basics of microfinance, self-help groups, microfinance institutions performance, urban and rural microfinance, micro insurance, technology and microfinance business models. However, it falls short in analyzing the limitations of microfinance.

- **Microfinance in Asia: trends, challenges & opportunities, published by Jamie Bedson in 2009-** This report aims to contribute to the growth and development of the microfinance sector by providing practitioners with practical guidance on addressing challenges related to non-performing assets and improving their ability to serve the underserved population.
- **Financing Microfinance: ICICI Bank partnership model, published by Bindu Ananth in 2005-** This paper analyses the partnership model of financing microfinance institutions. The paper provides a comprehensive analysis of different financing models for microfinance, including ICICI Bank's innovative partnership model, the self-help group bank linkage model and the financial intermediation model.

Objectives

There are following objectives of this research paper:

- To understand the concept of Microfinance India
- To analyse the role of Microfinance in Rural Development in India
- To understand the Models of Microfinance in India.

Research Methodology

This research study is a theoretical study which mainly based on the secondary data source. The secondary data is used to describe the concept and review of literature. The data is collected from reports, journals and articles newspaper and books

- **Initiatives of NABARD for the Microfinance Sector:** NABARD has continued its efforts to strengthen microfinance through various interventions from time to time for providing access to a range of financial services. During the year 2020-21, it implemented various interventions with this role as the facilitator of microfinance initiatives in the country through;
 - Granting support to partner agencies for promotion and nurturing of SHGs © 2021 JETIR December 2021, Volume 8, Issue 12 (ISSN-2349-5162).
 - Implementing scheme for promotion of women SHGs in backward districts of India
 - Promoting Joint Liability Groups (JLGs) for strengthening finance through JLGs
 - Self-employment generation through MEDP (Micro Enterprise Development Programme) and LEDP Livelihood and Enterprise Development Programme.
 - Offering training and capacity building programs to enhance the skills and knowledge for Microfinance clients

- Granting support for Village Level Programme
- e-Shakthi – In line with Government of India’s Digital India mission, a pilot project for digitalization of SHGs
- The Centre for Research on Financial Inclusion and Microfinance (CRFIM) was founded to promote understanding and knowledge of microfinance. It aims to be leading authority on microfinance, providing valuable insights and resources to researchers, practitioners and policymakers.
- Refinancing support to Banks, MFIs.
- NABARD provides financial assistance to microfinance institutions (MFIs) through revolving funds and capital support, as well as implementing the National Rural Livelihood Mission (NRLM) and the scheme for interest subvention to women self-help groups.

Microfinance in India

The concept of microfinance took shape in the 1970s with establishment of organizations like Grameen Bank of Bangladesh with the microfinance founder Muhammad Yunus, were starting the modern industry into microfinancing. But in India, its originated in back to the early 1970s when Self Employed Women’s Association (SEWA) of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the purpose of providing banking services to the marginalized women.

Progress of MFI Operations during 2020 – 2021

Table 1: Loans to MFIs by Banks and Financial Institutions

(No. in lakh, Amount in Crore)

Types of Lender	2019-2020		2020-2021		Growth (%)	
	No. of Active Loans	O/S Balances	No. of Active Loans	O/S Balances	No. of Active Loans	O/S Balances
NBFC-MFI	356	72,110	359	79,115	0.9%	9.7%
Banks	303	81,001	416	1,10,122	37.1%	36.0%
SFB	168	38,986	163	37,724	-3.0%	-3.2%
NBFC	84	18,073	78	18,765	-6.7%	3.8%
Non-Profit MFI	8	1,679	11	2,113	42.8%	25.8%
Total	919	2,11,849	1,028	2,47,839	11.8%	17.0%

Source: NABARD, 2021. Status of Microfinance in India 2020-2021, Micro Credit Innovation Department (MCID), Mumbai

6 Top 10 Microfinance Institutions of India

- State Bank of India
- Ujjivan Financial Services
- Asmitha Microfin Ltd.
- M&M Financial Services
- Sundaram Finance Ltd
- Bandhan Financial Services
- Bharat Financial Inclusion Ltd
- Muthoot Microfinance Ltd
- Janalakshmi Financial Services
- MUDRA Bank in India

Microfinance Utilizes Two Primary Approaches to microfinance in India are rooted in different methods of delivery financial services to rural poor and low income individuals called

- Self Help Group – Bank Linkage Programme (SHG-BLP)
- Micro Finance Institutions

SHG- Bank Linkage Programme (SBLP)

The SHG-BLP is most popular and successful program of Microfinance globally with an outreach to 13.87 crore Households, providing socio, economic and financial empowerment to the rural poor, especially to the women. SHG Model is one of the two different approaches to reach the poor. It leads the scenario in India in terms of clients' outreach, loan amount disbursed, savings etc. It becomes achievable only when members merge their resources together towards a common fund. Different kinds of skill development training are also provided to the members to make them self-employed at very minimal cost and capital investment.

Micro Finance Institutions (MFIs)

Micro Finance institution is called lifeline for poor rural people, The Forbes rankings and the Deutsche Bank Report highlights that microfinance institutions were moved beyond the perimeter of financial services. And, IFAD (International Fund for Agricultural Development) assists with its Rural Finance policy which aims to construct sustainable rural finance institutions that reach the rural poor, encourages sound rural financial infrastructure.

- One billion people live their lives on less than US \$ 1- day and 75% of them live in rural area. Microfinance institutions are often targeting women as customers. Because women have a much greater impact on household consumption and the quality life for children.
- Low income rural people need to retrieve a wide variety of financial services not just credit. They need secure, convenient deposit services that allow for small balances, small transactions and easy access to funds.
- IFAD is one of the largest lenders in rural finance for poverty alleviation. In India, now SHGs are being developed and well connected with commercial banks, giving rural people are retrieving to financial services on very massive scale.
- The Rural Finance Support Programme was started in 2005 that to assist poor people to support each other with the assistance of IFAD.

Conclusion

The MFIs are a vital factor in impacting an India's social and economic condition. Micro finance provides both savings and loan facilities. It can be concluded from the paper that Microfinance plays a very pivotal role to providing essential financial resources to critical sectors of the community. It is also anticipated that Microfinance contributes towards women empowerment in the society A core conclusion of the paper is that microfinance can contribute into solving this problem of insufficient housing and rural services as an integral part of a poverty alleviation programmes.

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