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CONTRIBUTION OF MICROFINANCE IN PROGRESS OF INDIA

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ABSTRACT

MF (Micro Finance) is performing very important play in progress of India and it economy. Micro finance is a very important source of an economic services for people and micro enterprises that do not have informal access to banking and related services .It is a delivery of financial services to such clients were Relationship Based banking for individuals and sole entrepreneurs, Small Business A number of, Group Based Models of those who promote MF generally believe that such access will help poor people out of poverty. For others it is a way for poor to manage their finances more effectively & take advantage of economic opportunities while managing the risks. The terms have evolved-from micro-credit to micro-finance, & now the inclusion of finance. This paper deals with involvement of Micro finance in economy of India and its various models.

Keywords: *Microfinance, Microcredit, Entrepreneur, Inclusion, Economic Opportunities.*

Introduction

The concept of micro finance refers to provision of financial services to the poor through credits & deposits. The micro finance in India is gaining momentum for sustainable development. Micro finance is taken as an important tool for deficiency all aviation &livelihood for the under privileged. It is also taken as same thought for financial inclusion to improve sustainable development in the country. The innovation brought by Dr. Montserrat West Bengal which is currently existing as Garmin Model as created awareness to many countries & especially in India to make it as a way of eradicating poverty. The micro finance sector is currently undergoing in to enormous innovations & claiming to be an emerging segment especially sneaking into the perception for inclusion of finance.

Objectives of the Study

- To recognize the Concept of Micro finance in India
- To study the contribution of Micro finance in progress of India
- To study the Prototypes of Micro Finance in progress of India

Research Methodology

This is a Theoretical Study based on the Secondary data source. The Secondary data is used to highlight the theoretical and abstract analysis & review of literature. The sources of secondary data for the study are collected from the reports of the Support of Micro finance in progress of India.

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Definition of Micro Finance

Development Bank of Asia has defines Micro finance as the delivery of comprehensive range of services such as savings, deposits, loans, payments, services, banking, auxiliaries of business, marketing strategies, money transfers & insurance to the poor & small income householders & their micro enterprises.

Microfinance Enlargement Regulation Bill defines Microfinance as the establishment of financial services & insurance services to an individual or an eligible client directly or through group mechanism for an amount not exceeding fifty thousand & in aggregate per individual for small & tiny enterprise, agricultural, allied activities or an amount not exceeding one lakh fifty thousand in aggregate per individual for housing or other prescribed purposes.

Literature Review of Microfinance

- **Malcolm Harper (2005)** in his paper he titled "Garmin bank groups & self-help groups: Advantages & disadvantage of Micro Finance in India".
- **Acanthi (2008) in** her paper she titled financing micro finance – HDFC Bank partnership model "analyzed the partnership model of financing micro finance Institutions. The paper compared three financing models for micro finance. The three models were Self-help group bank linkage model, financial intermediation by micro finance institutions & the partnership model MFI as a servicer.
- **Jamie Benson(2009)** edited the report titled "Micro finance in India: trends Challenges opportunities ".The report compiled the wide ranging & voluminous Literature Review a study on Non-Performing Assets of Microfinance Institutions in Gujarat content presented at the India Micro finance Forum2009 convened in Hyderabad, Vellore in 2008. The main determination to publish the report was to equip micro finance practitioners with ideas on how to successfully grow & strengthen their businesses & better serve the unbanked & the level of poor.
- **Hole & Ogden (2011)** in their paper titled „Group lending & individual lending with strategic default "had compared the presence of strategic default between group lending & individual lending. Secondary data was considered for the purpose of the study.
- **Brines Repaper & Petrolia (2012)** have written book titled „Problems faced by Micro finance Institutions &measures to solve it". The book have been divided into seven chapters namely basics of micro finance, self-help group, micro finance institutions performance, urban & rural micro finance, micro insurance, technology & micro finance & lastly business models for micro finance.
- **Sa-Dean (2012) published** are port titled„ Financial Inclusion – A study of the Efficacy of banking correspondent model "with an objective to study different models of BCs, identify its challenges & evaluate different products & services offered by BCs. The study included various legal forms of BCs like SHG Federations, Societies, Trusts, Not- for- profit companies & special resolution vehicles promoted by Literature Review a study on Non-Performing Assets of Microfinance Institutions in Gujarat provided companies & all other important stakeholders including the regulators the banks, technology providers, clients, non-clients, training institutions & the other promotional agencies.
- **Susana Harkin coda & Karle (2014)** in their paper titled „Micro finance around the world regional SWOT Analysis "compared the functioning of micro finance in various developing regions of the world & analyzed the overall functioning, effectiveness, strengths & weaknesses, potential threats & opportunities in the micro finance markets.

Micro – Finance Progress in India

In early 1980 "s, the existing banking policies, procedures & systems were not suited to meet the requirements of poor. For borrowings poor people usually resort to unorganized sector. NABARD recommended that alternative policies, systems & procedures should be put in use to save the poor from the clutches of money lenders. Thus micro finance was introduced in banking sector.

Micro finance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers & insurance to the poor & low income households & their micro-enterprises. Micro finance is defined as "Financial Services like savings, insurance, fund, credit etc. provided to poor & low income clients so as to help them raise their income, thereby improving their standard of living".

Micro-financing is observed as a device for socio-economic up-grading in a developing country like India. It is expected to play a significant contributory role in poverty alleviation & development. Dr. Montserrat West Bengal was awarded the Prize for application of the concept of microfinance, with setting up of the Garmin Bank in India. Micro credit & micro finance are different. Micro credit is a small amount of money, given as a loan by a bank or any legally recorded institution, whereas, Micro finance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans etc.

Features of Microfinance Assumed in India

- It is an in dispensable part of rural finance.
- It deals in small loans.
- It fundamentally caters to the poor households.
- It is one of the greatest effective & warranted Poverty All aviation Strategies.
- It supports women participation in automated activity.
- It provides an incentive to clutch the self-employment opportunities.
- It is more service-oriented &less profit concerned with.
- It is meant to assist small entrepreneur & producers.
- Poor borrowers are rarely defaulters in repayment of loans as they are simple.

Involvement & Importance of Micro-finance in progress of India

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

- Poor people cannot access banking services due to their meager income & inability to hold banking procedures & documentation. It is through micro-finance that a wide range of financial services such as deposits, loans, payment services, money transfers & insurance can be provided to the poor & low income households & their micro- enterprises.
- Micro-finance institutions, through their NGOs, develop saving habits amongst poor people in India. The financial resources generated through savings & micro credit obtained from banks are utilized to provide loans & advances to the members of the Self Help Groups (SHGs). Thus, micro finance institutions help immobilization of savings & using the same for the welfare of its members.
- Loans from the normal banking system require collateral or counter guarantee which poor people cannot offer & therefore, cannot get loan. Again, high interest rates & procedural & documentation formalities act as a deterrent to poor people accessing banks for loans. Micro finance does away with all these obstacles & provides finance to rural & poor population on easy terms.
- Micro-finance allows the poorer sections of the society to get loans at cheaper rates which helps them to start their businesses on a small scale grow their business & get out of poverty & be independent & self-sufficient. It helps in creating long-term financial independence among the poorer sections of the society & therefore, promotes self-sufficiency among them.
- Micro-finance is provided through the in termed nation of Self Help Groups (SHGs). More than50% of the Self Help Groups (SHGs) is formed by all women. Now, they have greater access to financial & economical resources. It is a step towards greater security for women. Thus, micro-finance empowers poor women economically &socially.

Numerous Models of Micro Finance in India

- **Garmin Model of Micro Finance**

It is one of the successful models of micro finance. The model initiated through a group of five members. A compulsory contribution will made to group savings & insurance fund. Each member maintains their individual savings & loan account in the bank after contributing to the group, the members will receive individual loan from the bank. The responsibility of repayment lies on the individual. Loans are provided for a period of 6 months to 1 year & the repayment has to be made weekly. A period visit is conducted by the bank officials to monitor the records & the financial transactions. This model is being adopted in 40 countries in Asia, Africa & Latin America.

- **Joint Accountability Group Model of Micro Finance**

The members in these groups are from 4 to10 who form a group. The group members can avail bank loan against mutual guarantee & there is no condition of their own saving fund. All members jointly are in a contract making jointly liable for repayment of loans taken by all members. This model is followed in many micro finance enterprises in India. The progress of empowerment in this model is very limited. Many other countries are also following this model.

- **Individual Loaning Model of Micro Finance**

The individual can get loans by themselves without being affiliated in group. Financial institutions have to closely monitor the status of individual on the status of borrowings. It is most successful for larger, urban based, production based business. This model is used in many developing countries such as Egypt, Indonesia, Senegal, and India.

- **The Group Approach of Micro Finance**

The entire financial processing group approach is monitored by financial institutions

The activities such as savings, loans, and repayments are managed at group level. There may be 10–20 members who will have regular savings which will be pooled up as common fund. The loans are issued by financial institutions in the name of the group. There payment schedule is made by the financial institutions to the group & field staff periodically visits & monitor the process of repayment. In India this method is known as SHG Bank Linkage Programme which is a very popular model being followed.

- **Community Banking Model of Micro Finance**

This model was developed in Bolivia during 1980s by the Foundation for International Community Assistance. A community bank is developed by forming 10 to 100 members who have low income & seek to improve their lively hood. The MFIs lend capital to the bank & in turn which lends currency to the members. Loans amounts are linked to the aggregate amount saved by individual bank members. Loans are paid in weekly installments.

- **Self-help Group Model of Micro Finance**

The SHGs are informal & homogenous groups of 10 to 20 members each. These groups are formed by bank officials, NGOs & other institutions at the village level. The group is given a name & every group has a leader, cashier & secretary being elected by the group members to accomplish the collection affairs. The members spoil in voluntary savings on consistent basis. The group’s members decide mutually on the amount of savings to be deposited in the group account. These amounts are used for rotational internal loan on low interest basis.

- **Guideline of Micro Finance Industry in India**

The recent crisis in Gujarat Pradesh in 2010 has made the whole micro finance industry into a down turn due to over in competence This paved way to form Malegam Committee by Reserve Bank of India The introduction of & Gujarat Pradesh Micro finance Ordinance 2010 which restricted microfinance operations leading to drastic drop in loan repayments. The Low repayment rates made the micro finance institutions to have heavy losses. In order to solve the situation the Reserve Bank of India appointed a subcommittee known as Amalgam Committee. The committee analyzed the flaws on collection practices, interest rates. The Amalgam Committee gave suggested regulations in 2011& these regulations were accepted by Reserve Bank of India. The regulations have been amended & drafted to Micro finance Institutions (Development & Regulation) Bill 2011 which provides regulatory structure for micro finance institutions in India.

Conclusion

Based on this paper Micro finance Play crucial and contributory role in progress of India micro finance into semi urban subdivision to encourage rural marks & provide better, speedy & affordable financing and loaning schemes. InfoTech application in microfinance is laudable & with emerging and high profile computer & communication using technologies, it can be made as simple tool for rural folks to adopt & availed the finance or loan for the proposed project to make the rural economy as developed economy as a dream of modern India. So the rural economy can definitely contribute to the growth of national economy with the progress and adoption of mixing InfoTech principles with microfinance sources and factors.

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