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# Involvement of Microfinance in Progress of India

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**Abstract:** *MFI (Micro Finance in India) is play very important contribution in development. Microfinance is a very important source of financial services for people and microenterprises that do not have easy access to banking and related services. It is a delivery of financial services to such clients were Relationship Based banking for individuals entrepreneurs ,Small Business, Group Based Models Many of those who promote MFI 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 'financial inclusion'. This paper deals with contribution of Micro finance In India and its models.*

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

## I. INTRODUCTION

The concept of microfinance refers to provision of financial services to the poor through credits & deposits. The microfinance in India is gaining momentum for sustainable development. Microfinance is taken as an important tool for poverty alleviation & livelihood for the poor. It is also taken as a method for financial inclusion to improve sustainable development in the country. The innovation brought by Dr. Munster at 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 microfinance sector is currently undergoing into huge innovations & claiming to be an emerging sector especially creeping into the concept of financial inclusion.

**Objectives of the study**

1. To recognize the Concept of Micro finance India
2. To study the contribution of Micro finance In India
3. To study the Prototypes of Micro Finance in India

## II. RESEARCH METHODOLOGY

This is a Conceptual Study based on the Secondary data source. The Secondary data is used to high light the conceptual analysis & review of literature. The sources of secondary data for the study are the reports of the Contribution of Microfinance in India.

**DEFINITION**

**Development Bank of Asia has** defines Microfinance as the delivery of broad range of services such as savings, deposits, loans, payments, services, money transfers & insurance to the poor & small income householders & their micro enterprises.

**Microfinance Enlargement Regulation Bill** defines Microfinance as the provision 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.

## II. LITERATURE REVIEW OF MICROFINANCE

1. **Malcolm Harper (2005)** in his paper titled „ Garmin bank groups & self-help groups; what are the differences?‟ showed the advantages & disadvantages of both the system.

2. **Binds Acanthi (2008)** in her paper titled „Financing microfinance – ICICI Bank partnership model‟ analyzed the partnership model of financing microfinance institutions. The paper compared three financing models for microfinance. The three models were Self-help group bank linkage model, financial intermediation by microfinance institutions & the partnership model – MFI as a servicer.

3. **Jamie Benson (2009)** edited the report titled „Microfinance in Asia: trends Challenges & opportunities. The report compiled the wide ranging & voluminous Literature Review a study on Non-Performing Assets of Microfinance Institutions in Gujarat Page 29 content presented at the Asia Microfinance Forum 2008 convened in Hanoi, Vietnam in 2008. The main purpose to publish the report was to equip microfinance practitioners with ideas on how to successfully grow & strengthen their businesses & better serve the unbanked & the poor.

4. **Hole B. & Ogden S (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.

5. **Brines Repaper & Jitendra Petrolia (2012)** have written book titled Problems faced by Microfinance Institutions & measures to solve it. The book have been divided into seven chapters namely basics of microfinance, self-help group, microfinance institutions performance, urban & rural microfinance, micro insurance, technology & microfinance & lastly business models for microfinance.

6. **Sa-Dean (2012) published** a report 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 purpose vehicles promoted by Literature Review A study on Non-Performing Assets of Microfinance Institutions in Gujarat Page 30 technology provided companies & all other important stakeholders including the regulators – the banks, technology providers, clients, non-clients, training institutions & the other promotional agencies.

7. **Susana Harkin coda & Karle (2014)** in their paper titled „Microfinance around the world – regional SWOT Analysis‟ compared the functioning of microfinance in various developing regions of the world & analyzed the overall functioning, effectiveness, strengths & weaknesses, potential threats & opportunities in the microfinance markets.

## IV. MICRO – FINANCE 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 moneylenders. Thus microfinance was introduced in banking sector.

Microfinance 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. Microfinance 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 regarded as a tool for socio-economic up-liftment in a developing country like India. It is expected to play a significant contribution in poverty alleviation & development. Dr. Munster at West Bengal was awarded the Noble Prize for application of the concept of microfinance, with setting up of the Grameen Bank in Bangladesh.

Micro credit & microfinance are different. Micro credit is a small amount of money, given as a loan by a bank or any legally registered institution, whereas, Microfinance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans etc.

**FEATURES OF MICROFINANCE**

- It is an essential part of rural finance.
- It deals in small loans.
- It basically caters to the poor households.
- It is one of the most effective & warranted Poverty Alleviation Strategies.
- It supports women participation in electronic activity.
- It provides an incentive to grab the self-employment opportunities.
- It is more service-oriented & less profit oriented.
- It is meant to assist small entrepreneur & producers.
- Poor borrowers are rarely defaulters in repayment of loans as they are simple & God- fearing.
- India need to establish several Microfinance Institutions.

**Contribution & Significance of Micro-finance**

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

1. 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.
2. Micro-finance institutions, through their NGOs, develop saving habits among poor people. 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, microfinance institutions help in mobilization of savings & using the same for the welfare of its members.
3. 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. Microfinance does away with all these obstacles & provides finance to rural & poor population on easy terms.
4. 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.
5. Micro-finance is provided through the intermediation of Self Help Groups (SHGs).

More than 50% of the Self Help Groups (SHGs) are formed by 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.

## V. MODELS OF MICROFINANCE IN INDIA

**Garmin Model**

It is one of the successful model of microfinance. 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**

The members in these groups are from 4 to 10 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 microfinance enterprises in India. The progress of empowerment in this model is very limited. Many other countries are also following this model.

**Individual Lending Model**

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**

The entire financial process in 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. The repayment schedule is made by the financial institutions to the group & field staff periodically visit & monitor the process of repayment. In India this method is known as SHG Bank Linkage Programme which is a very popular model being followed.

**Village Banking Model**

This model was developed in Bolivia during 1980s by the Foundation for International Community Assistance. A village bank is developed by forming 30 to 100 members who have low income & seek to improve their livelihood. The MFIs lend capital to the bank & in turn which lends money 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**

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 & each group has a leader, cashier & secretary being elected by the group members to manage the group affairs. The members indulge in voluntary savings on regular basis. The groups members decide mutually on the amount of savings to be deposited in the group account. These amount are used for rotational internal loan on low interest basis.

**REGULATION OF MICROFINANCE INDUSTRY**

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

## VI. CONCLUSION

Based on this paper Microfinance Play crucial contribution in India microfinance into urban sector to promote rural marks & provide better, speedy & affordable financing schemes. Infotech application in microfinance is laudable & with emerging computer & communication technologies, it can be made as simple tool for rural folks to adopt &

availed the finance for the proposed project to make the rural economy a dream. So the rural economy can definitely contribute to the growth the of national economy with the adoption of mixing Infotech with microfinance

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