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ROLE OF MICRO FINANCIAL INSTITUTIONS IN INDIA

Prof. Hanisha Bathija

Assistant Professor,

KSD's Model College, Dombivili.

Abstract:

Indian economy is a developing economy. Micro Finance programmes play very significant role for boosting entrepreneurial activities for creating productive assets coupled with employment generation. Government spends crores of rupees through various financing schemes to boost Indian economy. Indian Population is characterized with low standard of living , inequality, low income and illiteracy. To boost Indian Economy and Entrepreneurial skills Government has came up with Micro finance schemes through various institutions for Entrepreneurial Growth and Development. However lack of awareness of Micro Finance schemes among the major portion of Indian Population has led to slow growth in development of Industries, Agriculture, Trade and other related activities. To achieve the socio economic objective and making formal banking sector accessible to poor people various micro finance schemes has been introduced by Government. These schemes puts credit, savings and other financial services within the reach of poor people. This paper deals with role of Micro finance in India and its models.

Keywords: *Micro Finance, economic objective, financial services*

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Introduction:

Micro finance refers to provision of various financial services to the poor through various types of credits. In India Micro Finance is gaining importance as it related to sustainable development and growth. Micro Finance programmes are mainly aimed to remove poverty, unemployment and slow growth rate of industries which are main hurdles in the growth of developing economy like India. Micro finance was started in India in 1980s as a solution to poverty and to empower women. The first initiative to introduce microfinance in India was the Self-Employed Women's Association (SEWA) in Gujarat, which established SEWA Bank in 1974. Since then, this bank has been providing financial services to individuals who wish to grow their own businesses in rural areas. Various formal financial institutions failed in India while lending to the rural masses as the reason for applying for loan by poor was not studied properly. The high risk and transaction costs of small loan savings deposits create difficulty for the banks as well. Micro finance sector is under going through huge innovations to cater to the financial needs of Indian Economy.

Objectives of the Study:

1. To know the concept of Micro Finance
2. To study the Role of Micro Finance Institutions in India
3. To study the Micro Finance Models

Research Methodology:

This is a conceptual study based on secondary data. The secondary data is used to highlight the concept and review of literature. The sources of secondary data are journals, articles, reports and websites.

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Literature Review of Micro Finance:

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.

Jamie Bedson (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.

Dr. Murlidhar.A.Lokhande (2009) Micro Finance initiatives in India

Brijesh Rupapara& Jitendra Patoliya (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.

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Micro Finance in India:

In the early 1990s banking policies procedures, and financial schemes were not sufficient to suit the requirements of the poor. So to meet their financial needs people move to the un-organised sector for loans. To save the people from the clutches of money lenders Micro Finance schemes were introduced.

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 role in poverty alleviation & development. Mohammed Yunus was awarded the Noble Prize for application of the concept of microfinance, with setting up of the Grameen Bank in Bangladesh. Micro credit &microfinanceare different. Micro credit is a small amount of money, given as a loan bya bank or any legally registered institution, whereas, Micro finance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans etc.

Role of Micro-Finance:

1. It is for Low-income group borrowers
2. Main purpose for taking loans is for income generation purpose
3. Duration offered for loan is short
4. Frequency of repayment is high
5. Loans are collateral- free loans
6. Amount of loan is small
7. mainly service oriented and not profit oriented
8. Caters the needs of poor households
9. Assists small entrepreneurs and producers
10. Supports women participation

Micro Finance Institutions:

Finance is the backbone for growth of any business sector. To meet the needs of the Indian Economy Micro Finance institutions were introduced as a solution to the problem of finance. Micro finance in India came from 1800s. microfinance was first used in 1970, at the time of the development of Grameen Bank of Bangladesh. The bank was founded in 1976 by Muhammad Yunus, who institutionalised the approach of Micro finance.

Some of the micro finance institutions which offer banking credit are :

1. Annapurna Microfinance Pvt Ltd
2. Arohan Financial Services Pvt Ltd
3. Asirvad Microfinance Pvt Ltd
4. Bandhan Financial Services Pvt Ltd
5. BSS Microfinance Pvt Ltd
6. Cashpor Micro Credit

7. Disha Microfin Pvt Ltd
8. Equitas Microfinance Pvt Ltd
9. ESAF Microfinance and Investments Pvt Ltd
10. Fusion Microfinance Pvt Ltd

These micro finance institutions get micro finance credit from institutions like Development Credit Bank, State Bank of India, ICICI Bank, Axis Bank and Reliance Money.

Micro Finance Models

Grameen Model :

It is one of the successful model of micro finance. The Grameen Bank model works as follows: A bank is set up in a village with a field officer and some qualified bank workers. It will support 15 to 20 villages—the field officer will already have researched these villages as prospective clientele. Groups of five people are created. Two of the members are eligible to receive a loan. The two members are monitored for a one-month period, and the credibility of the group will then be based on the repayment performance of the two individuals. If the loans are paid back within the 50-week period, then the other members now qualify to receive a loan. This model is practiced in more than 40 countries of the world.

Village based Model:

It is closely related to the community bank contributing and the Group model, this is the community-based saving and credit model. A group of 25-50 people gets together to enhance their income through self-employment activities. They get their first loan from the implementing agency, which helps them form the community credit enterprise.

Small business Model:

This model places a big responsibility on small and medium enterprises. This has been changing, as more and more importance is placed on small and medium enterprises (SMEs) - for generating employment, for increasing income, and providing services that are lacking.

Individual banking Model:

This model is simple credit lending model where microloans are given directly to borrower. The individuals can get loans based on their creditworthiness. Commercial Banks, Co-operative Banks and other Regional Rural Banks adopts this Model to give loans to farming and non farming sectors. It is most successful form of micro finance which has led to the success of Entrepreneurial development in India and other countries.

Self Help Group Model:

self help group consists of 10 – 15 people who come together to meet their financial needs. They are generally self governed consisting of similar social and economic backgrounds. The groups are given name and consists of leader, cashier and secretary. All the members of group voluntarily contribute the amount to be deposited in the group account and amount is given in the form of loan on rotational basis on low interest rates.

Conclusion:

Micro Finance has significant role to play in Indian Economy to grow Micro Entrepreneurial activities, Below Poverty Line households needs full support from Government, SHGs, NGOs and other Financial Institutions. Low income groups those who are interested to borrow funds from financial institutions have to face problems like Indifferent attitude of bank officials, lack of marketing facilities for products/services. Many banks in India have started to provide loans through micro finance schemes. Indian financial institutions have to work hard to cater the financial needs of population which is BPL by introducing various micro finance schemes so that Economy should perform better.

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