Iosr Journal Of Economics And Finance (Iosr-Jef)
E-Issn: 2321-5933, P-Issn: 2321-5925.Volume 16, Issue 2 Ser. 4 (Mar. – Apr. 2025), Pp 48-51
www.Iosrjournals.Org

The Role Of Microfinance In India

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Abstract
MFI (Micro Finance in India) is play very important role 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 Role of Micro finance In India and its models.

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

Date of Submission: 08-04-2025 Date of Acceptance: 18-04-2025

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. Mohammad Yunus at Bangladesh which is currently existing as Grameen 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 fmancial inclusion.

Micro Finance is a non-profit organization that provides financial assistance to low-income people. Microloans, micro-savings, and micro insurance are examples of these services. Micro Finance in India is financial institutions that make small loans to persons who do not have access to traditional banking services. The term “small loans” is defined differently in different nations. In India, it is defined as loans of less than one lakh rupees. Micro finance institutions in India has risen significantly in India over the last two decades, and it now serves roughly 102 million impoverished people’s accounts (including banks and small financing banks). It empowers entrepreneurs, fosters financial inclusion, and breaks the cycle of poverty by offering accessible and tailored financial solutions.

Objectives Of The Study:

Transform into a financial institution that supports the development of sustainable communities. Assist in the supply of resources that benefit the poorest members of society. In this aspect, women are given special attention because they have successfully established income-generating businesses. Examine the choices available to aid in the faster eradication of poverty.

1. To the Concept of Micro finance India.
2. To study the role of Micro finance In India.
3. To study the Models of Micro Finance in India.

Role Of Microfinance:

Microfinance institutions have a specific focus: they aim to offer banking services to low-income individuals and groups, and they receive funding from established financial institutions to support the underprivileged. Consequently, these institutions have become powerful tools in the fight against poverty in India. These institutions not only offer microcredit but also supplementary financial services like insurance, savings, and remittances. Moreover, they provide non-financial services such as training, counseling, and support for borrowers in the most convenient manner possible. Borrowers have the flexibility to determine interest rates based on loan purpose and their own financial history, as well as their repayment schedules.

Microfinance services are provided through various sources, including:
- Formal institutions like rural banks and cooperatives.
- Semiformal organizations, often non-governmental entities.
- Informal sources, including small-scale lenders and shop owners.
- Institutional microfinance encompasses offerings from both formal and semiformal institutions, with some MFIs being well-managed and self-sufficient in their operations.

Different categories of institutions are involved in providing microfinance in India, such as:
- Commercial banks.
- Credit unions.
- NGOs (Non-Governmental Organizations)
- Sectors within government banks.
- Cooperatives.

Major Features Of Micro Finance In India:
- Borrowers typically come from economically disadvantaged backgrounds.
- Microfinance loans, often referred to as microloans, are typically for small amounts.
- The repayment period for microfinance loans is usually short.
- Collateral is not a requirement for microfinance loans.
- Microfinance loans are commonly repaid more frequently.
- The primary objective of most microfinance loans is to generate income.

Definition:

Asian Development Bank defines Microfinance as the provision of broad range of services such as savings, deposits, loans, payments, services, money transfers & insurance to the poor &low income householders & their micro enterprises. Microfinance Development Regulation Bill defines Microfinance as the provision of fmancial services & insurance services to an individual or an eligible client directly or through group mechanism for an amount not exceeding fifty thus & 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.

Current Status Of Micro Finance In India:

As of March 31, 2024, the program covers 144.22 (No. in lakhs) families and 54.82 (No. in lakhs) SHG groups with cumulative savings of 65089.15 (Rs. in crore). During FY 2021-22, 3.4 million SHGs were credit linked, and loans worth $997.2 billion were disbursed, with a credit outstanding of $1,510.5 billion for 6.74 million SHGs (an average of $0.24 million per SHG). The E-Shakti program digitized data of over 1.2 million SHGs to facilitate credit linkage with banks, aiming to improve the process. The figure below displays the state-wise credit linkage status of SHGs as of December 31, 2022, where 57% of SHGs with savings have loans outstanding with banks. Nine states have a credit linkage percentage higher than the all-India average, with Andhra Pradesh leading at 90% of its SHGs having outstanding loans, followed by Bihar (89%) and Karnataka (87%). Southern and Eastern states, along with Tripura, dominate the list.

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 role of Microfinance in India. In addition to those Books articles, journals.

Features Of Microfinance:
- 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 needs to establish several Microfinance Institutions.
- It is an essential part of rural finance.

Role And 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 help 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.

Models Of Microfinance:

Grameen Model It is one of the successful models 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 Liability Group Model:

The members in this group 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.

Village Banking Model:

This model was developed in Bolvia 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 group's 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.

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 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.

Regulation of Microfinance Industry:

The recent crisis in & hra Pradesh in 2010 has made the whole microfinance industry into a down turn due to over indebtness This paved way to form Malegam Committee by Reserve Bank of India The introduction of & hra 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

III. Conclusion:

Based on this paper Microfinance Play crucial role 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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