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Role of Indian Microfinance Institutions in Financial Inclusions

Zeenat Kauser[1], Dr. M. N. Zubairi[2]
[1]*Research Scholar,* [2]*Associate Professor, University Department of Commerce and Business Management, Ranchi University, Ranchi*

Abstract: ***Microfinance growth is critical to the upliftment of financially excluded from the mainstream. This is evident from their contribution to improving financial inclusion particularly in semi urban and rural locations. Micro Finance players have been actively pursuing activities to balance social and commercial obligations and a key stakeholder in the process customers Financial Institutions and regulators. This paper highlights various aspects of growth of microfinance institution with a wide array of services in India that have consequently brought about significant changes in the lives of economically marginalized people and reduce vagaries of source of income.***
Keywords- Financial inclusions, microfinance institutions, outreach.

I. INTRODUCTION

Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." Those who promote microfinance generally believe that such access will help poor people out of poverty. Microcredit emphasizes the provision of credit services to low income clients, usually in the form of small loans for micro enterprise and income generating activities. Use of the term 'microcredit' is often associated with an inadequate amount of the value of savings for the poor. In most cases, the provision of savings services in 'microcredit' schemes simply involves the collection of compulsory deposit amounts that are designed only to collateralize those loans. Additional voluntary savings may collect but the clients have restricted access to their enforced savings. These Savings become the main Source Of capital in the financial institutions. Microfinance is a unique economic development tool that was introduced with an objective to assess low income strata who aim to work their way out of poverty. India Today is under way a major policy shift towards financial inclusivity. Microfinance has taken center stage for extending financial services to unbanked and underbanked sections of the Indian population. This is why microfinance institutions serve as a better supplement to banks. Not only do they serve microcredit but also help the poor with allied financial services like saving, insurance, remittance and non financial services like individual counseling, training and support to start their own business in accessible ways. Microfinance institutions have come up as a bridge between banks and the poor, whose source of credit has so far been the money lender. Today microfinance institutions represent market solution to mitigation of poverty and act as a development and economic tool in bringing about financial inclusion in India.

A. Statement of Problem

Crippling poverty is a characteristic trait of Indian economy. Both Central and state government run multiple poverty alleviation programmes. The sector has sustained growth over the past few decades. The Microfinance institutions in India started with an informal self help group to access the much-needed Savings and Credit services in the early 1980 and today it has evolved into a vibrant industry exhibiting a variety of business models. Realization of Goals of financial inclusion can be asserted in terms of Sustainable growth of microfinance institution In terms of of outreach and gross loan portfolio over the years.

Micro finance includes the following products:

1) *Microloans:* Microfinance loans are significant as these are provided to borrowers with no collateral. The end result of microloans should be to have its recipient outgrow smaller loans and be ready for traditional bank loans. The importance of Micro loans is that it is provided with no collateral. The borrower is not bound to pledge something as a security for repayment of the loans. It offers a better overall loan repayment rate than traditional banking product. It enhance the possibility of future investments as it is a sustainable process. Most importantly it gives people a soothing and non stressful life.

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2) *Microsavings:* Micro savings accounts allow entrepreneurs operate savings account with no minimum balance.These accounts help users inculcate financial discipline and develop an interest in saving for future. The importance of microsavings are that the poor people and small businessman with low income can operate their account with no minimum balance. These accounts do not bound people to maintain their accounts with certain amount of money in it.

B. Microinsurance

Microinsurance is a type of coverage provided to borrowers of microloans. These insurance plans have lower premiums than traditional insurance policies.

The importance of microinsurance is that it is the machinery to protect the poor people from all the mishap that might take place in future, example: Accidents, chronic disease etc. It addresses to all kind of risks that people of low income group or poor people face globally.

II. FACET OF MICROFINANCE

Some of the important features of Microfinance are listed below:

A. Microfinance Does Not Require Any Collateral

The keystone feature of the microloans under microfinance is that it does not require any collateral. The borrowers are not.

B. The Borrowers Are Generally Poor People

The purpose of microfinance is to lend helpful hands towards needy people. So generally the borrowers of microfinance are the people belonging to underdeveloped part of India and Small businessmen or entrepreneurs.

C. The money which can be availed under microfinance is usually the small amount

For instance Microloans.The money given in the form of microloans under microfinance to the poor section of the society and small businessman are usually in a small amount ranging in between 20,000 – 30,000rs in India.

D. The Loan Tenure Is Short

The tenure of the loan is really short as the amount given in the form of microfinance is too small. The borrowers have to repay the amount the of loan in the prescribed time period given by the banks. If it is not bound to pledge anything as a security for the repayment of the loans. They need not worry about the assets that are required to be kept in banks for security purpose.

E. The purpose of microfinance loans is to generate income

As it is well known that microfinance loans are only given to low income group people and small businessmen. So the main focus of microfinance loans is to generate income for the the poor people of undeveloped part of India so they can work smoothly.

III. HISTORY OF MICROFINANCE

The history of Micro-financing can be traced back as long as to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits for small credits to entrepreneurs and farmers as a way getting people out of the poverty. But it was at the end of world war2 with the Marshall plan the concept had a big concept. The word microfinance has its roots in 1970s when organizations such as Grameen Bank of Bangladesh with the microfinance pioneer Mohd.Yunus, where starting and shaping the modern industry of microfinancing .

Another pioneer in this sector is Akhtar Hameed khan. At that time a new wave of microfinance initiatives introduced many new innovations into the sector. Many pioneering enterprises began experimenting with loaning to the poor people. The main reason why microfinance is dated to the 1970s is that the programs could show that people can be relied on to repay their loans and that is possible to provide financial services to poor people through market based enterprise with subsidy. '**Shorebank** was the first microfinance bank founded in 1974 in Chicago.

Today the world Bank estimates that more than 16 million people served by some 7000 microfinance institutions all around the world. In a gathering at Microcredit Summit in DC Washington the goal was reaching 100 million of the world's poorest people by credit from the world leaders and major financial leaders.

The year 2005 was proclaimed as the International Year of Microcredit by the economic and Social Council of United Nation in a call for the financial and building sector to fuel the strong entrepreneur spirit of the people around the world.

There were five major goals of the International Year of Microcredit. Those were:

- To promote the contribution of microfinance to the microfinance institutions.
- The promotions should be inclusive of financial sector.
- Make a supportive system for sustainable access to financial services.
- Support strategic partnership by encouraging new partnership and innovation to build expand outreach and success of microfinance for all.

Therefore in the year 2006 founder of Grameen Bank Md. Yunus was awarded with nobel Prize for his efforts in microfinance.

IV. CHANNELS OF MICROFINANCE

There are two channels through which microfinance in India is operating:

1) *Self-help group Linkage Programme (SBLP)* - In the year 1992 NABARD initiated this channel. This model incites women to unite together to form the group of 10-15 members. Where all the women belonging to financial backward classes contribute by giving their individual savings to group at regular intervals. Thereafter loans are provided to members of the group by their contributions. Self Help Group also at later stage provide loan for income generating activities. Self Help Group has got a lot of success in the past year and got it popular for contributing for empowerment of women. It has been observed once these Self Help Group reach to the level of stability they function almost independently with minimal support from NABARD, SIDBI and Non-Governmental Organization.
2) *Microfinance Institutions (MFIs)* –These institutions have microfinance as their primary operation .These lend through concept of joint liability group (JLG),i.e., an informal group that consists of 5-10 members who seek loans either jointly or individually.

A. Role of Indian Microfinance Institutions in Financial Inclusion

Since the beginning, microfinance has been playing a key role in financial inclusion in India, having come into existence to specially serve the smaller and more overlooked sections of society. In laymen's terms, micro credit is a loan of a very small amount given to the self-employed rural population, to help them live better and improve their living conditions.

The common types of employment of the individuals who seek micro credit are vegetable vendors, artisans, farmers, rickshaw pullers, fishermen, etc. The basic idea behind microcredit is to provide economic inputs to those in rural areas that are willing to pull themselves out of poverty. The need for credit is demonstrated by the fact that Microfinance Institutions (MFIs) constitute one of the fastest growing segments in recent years in terms of reaching out to small borrowers.

Microfinance in India started through the Self-Help Group-Bank Linkage model which was an initiative by National Bank for Agriculture and Rural Development (NABARD) in 1992, to link the unorganised sector to the formal banking sector. This industry has evolved over the last two decades and reached over 25 per cent penetration level in the total addressable market, in 2019.

In 2006, Government of India constituted a 'Committee on Financial Inclusion' which was headed by Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister. They broadly defined financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. This definition is not limited to banking services but also includes universal access to Insurance and Risk Management products at reasonable prices.

According to Dr. C. Rangarajan there are six approaches to financial inclusion , and they are as follows:

1) Credit to marginal and sub marginal farmers as well as other small borrowers
2) Going beyond credit and providing a helping hand to the rural areas
3) Commercial Banks to open for granting loans to small branches in rural areas
4) Simplifcation of procedure Commercial Banks to open for granting loans to small branches in rural areas borrowers
5) Strengthening the SHG-Bank business facilitator and Linkage program
6) Effective implementation of Strengthening the SHG-Bank business facilitator and Linkage program correspondent models

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As evident from the info graphic above, almost all of them pertain to the microfinance industry. Microfinance is contributing towards all these approaches and slowly but successfully accelerating financial inclusion the regulators play an important role in driving responsible, inclusive formal credit while striking a balance between providing growth, managing risks and not over burdening borrowers with excess debt.

Reserve Bank of India (RBI) recognised Microfinance Institutional Network (MFIN), followed by Sa-Dhan as two Self regulatory Organizations (SRO) formed to assist the Microfinance sector. These for these member MFIs includes the increase in SROs and the regulator work together to deal some of the problems faced by microfinance lenders and present timely solution taking into consideration feedback from member NBFC-MFIs . One such recent change that may act as catalyst for growth for these member MFIs includes the increase in lending caps for MFI borrowers.

The Self-Help Group- Bank linkage model has evolved to the current hybrid Self-Help group (SHG) and Joint Liability Group (JLG) models in India with the policy support of Reserve Bank of India and started linking the same to banks. The essence of this model was moving from a paper-backed guarantee to a social support guarantee from a nearby group. Millions of families have been brought into formalized credit over the past decades due to microfinance and it holds to the key to reaching the last man on the ground. About 99 per cent beneficiaries of microcredit in the country are women and the social strata of the model guarantee that the group repays the loans.

Over the past decade or so, the microfinance industry has seen a rapid growth and a healthy influx of new customers to sustain the growth, In the last five years microfinance portfolio has seen a tremendous growth at a Compound Annual Growth Rate (CAGR) of nearly 48 per cent from INR26,200 Cr. to INR 1,87,400 Cr. in FY 19. The client base has also grown from 180 lakh to 440 lakh within the same time frame at a CAGR of 20 per cent. This growth has been contributed by a range of financial institutions including but not restricted to NBFCs, microfinance institutions and banks. As of 31 March 2019, 82 NBFC-MFIs hold the largest share of portfolio in micro-credit with the total loan outstanding of INR68,868 Cr, which is 36.8 per cent of total micro-credit universe. This is followed by banks which are the second largest provider of micro-credit with a loan amount outstanding of INR 61,046 Cr., accounting for 32.6 per cent of the total industry portfolio. In 2016

MFIs are lending at an aggressive pace with a relatively low interest rate regime. Some of the MFIs have grown their disbursements at a CAGR of nearly 50 per cent in the last three years. This type of growth is unprecedented, and we will continue to see similar trends in the coming years because there is a huge underlying growth potential.

MFIs in India hold the key to unlocking access to low-income household market. Given the increasing penetration of MFIs, players need differentiators to attract and retain their customer base. To further the benefit to the community and increase literacy rates, microfinance lenders have also been offering education loans for younger children, with longer tenures and reducing interest depending on the loan amount.

Corporate Social Responsibilities are also key for the economic emancipation of the underprivileged segment of the society. While the regulators mandate that the lenders spend approximately 2 per cent of their net profits (of the past three years) on CSR activities, we have seen evidences of microfinance lenders spending over and above the statutory requirement to provide a holistic empowerment to the community.

The end goal of the CSR activities by leading lenders in this space continues to be around the following themes:

a) Skill training and education
b) Woman empowerment
c) Social welfare for the community
d) Better health and sanitation

B. Role of Microfinance Institutions

1) *Poverty Reduction Tool:* Microfinance as means to provide access to basic financial services e.g., small credit , savings, insurance and remittance to those who are excluded commercial financial services , has been developed as key strategy for reducing poverty throughout the world.
2) *Women Empowerment:* Microfinance helps in both economic and social emancipation of women particularly in rural areas where women are worst sufferer owing to illiteracy, social customs and practices. They are deprived of basic amenities and opportunities. Microfinance is being promoted as strategy to address both poverty alleviation and women empowerment through various government and NGO run programmes. e.g., SHG bank Linkage programme.

3) *Development Of The Overall Financial System:* Microfinance can contribute to the development of the overall financial system through integration of financial markets. Microfinance institutions (MFIs) can be small and medium enterprises at the heart of rural sustainable development. Their development positively correlates with rural business development.
4) Self-Employment: Financial services could enable the poor to leverage their initiative, accelerating the process of generating incomes, assets and economic security.
5) *SHG-bank ;linkage programme:* Today SHG model link the informal group of women to the mainstream system and it has largest clients in the world. The SHG comprise 15-20 members. The group begins by savings that are placed in a common fund. In a way SHG is a co-operative societies linked to commercial bank rather than an apex cooperative bank. Objectives of SHG bank linkage programme are supplementary credit delivery services for the unreached poor ,building mutual trust between bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple formal mechanism of banking with the poor. SHG has flexibility, sensitivity and responsiveness of the informal credit system with technical and administrative capabilities and resources of formal financial sector and contribute to overall empowerment process.
6) *Few Schemes of Government of India:* Among so many schemes of government of India microcredit programmes are run by NABARD in the field of agriculture and in the field of industry,service and business (ISB) Under the programme, total amount of Rs. 191 crore have been sanctioned upto 31st December, 2003, benefiting over 9 lakh beneficiaries. Under the programme, NGOs/ MFIs are supposed to provide equity support in order to avail SIDBI finance. The office of the development commissioner(Small Scale Industries) under Ministry of SSI is launching a new scheme of Micro Finance Programme to overcome the constraints in the existing scheme of SIDBI, whose reach is currently very low. It is felt that Government's role can be critical in expanding reach of the scheme, ensuring long term sustainability of NGOs/MFIs and development of Intermediaries for identification of viable projects.

Role of Microfinance Programme of Government of India:

a) *Arranging Fixed Deposits for MFIs/NGOs:* Under this scheme government of India arrange money to MFI/NGO like SIDBI for micro credit to poor.
b) *Training and Studies on Micro-Finance Programme:* Government of India would help SIDBI in meeting the training needs of NGOs,SHGs, intermediaries and entrepreneurs and also in enhancing awareness about the programme.Institution building for 'intermediaries' for identification of viable project **.** The SISIs would help in the identification of such intermediaries in different areas.
c) *Budgetary Provision for the Scheme During 10th Plan:* There was a budgetary provision in 10th five year plan and hoping more funds in next plan.
d) *Administrative Arrangement:* A committee has been formed to control and monitor the administrative arrangement of MFI/NGOs.

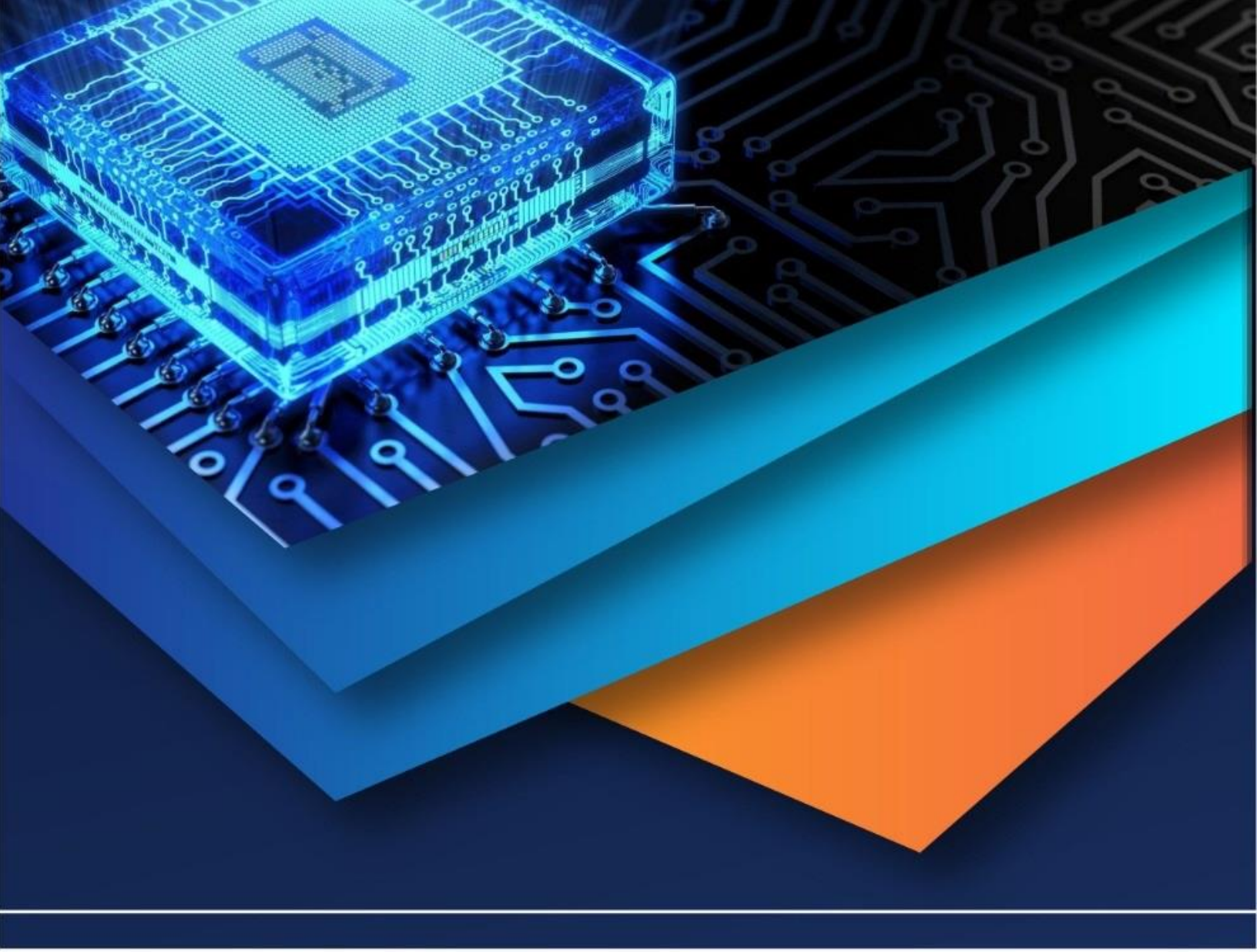
V. CONCLUSION

Microfinance has been recognized by Government of India as an economic development tool to alleviate poverty. India today is underway major policy objective shift towards financial inclusivity. Thus microfinance has taken center stage for extending financial services to unbanked and under banked section of Indian population. This is why microfinance institution serve better as supplement to banks. Not only do they serve microcredit but also help poor with allied services like savings, insurance, remittance and non financial services like training, individual counseling and support to income generating activities in accessible ways.

It is proven access to credit and its efficient provision helps poor to meet their need, better manage their risk, gradually build their assets, develop microenterprise, and enhance income generating activities thus microfinance contribute to wholesome development of individual client as well as the market and helps to promote whole economic growth and development.

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