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AN EFFECTIVE ROLE OF MICRO FINANCE IN INDIA

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Abstract:

MFI (Micro Finance Institutions) play a very important role in development. Small amounts of money are a very important source of financial services for people and small businesses that can easily access banks and related services. It is the delivery of financial services to such clients were Relationship Based Banking for individual entrepreneurs, Small Businesses, Group-Based Models Many of those who promote MFI generally believe that such access will help poor people out of poverty. For some it is a way for the poor to manage their finances effectively and take advantage of economic opportunities while managing risk. Terms have changed - from micro-credit to micro-finance, and now 'investment'. This paper discusses Micro finance role in India and its models.

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

Introduction:

The concept of microfinance refers to the provision of financial services to the poor through loans and deposits. Microfinance in India is gaining momentum for sustainable development. Micro Finance is considered an important tool to eradicate poverty and livelihoods for the poor. It is also seen as a means of investment to improve sustainable development in the country. New inventions submitted by Drs. Mohammad Yunus in Bangladesh currently exists as a Grameen Model as it has sensitized many countries especially India to do so as a way to eradicate poverty. The microfinance industry is currently embarking on a major new venture and says it is an emerging sector especially investing in investment.

Research objectives:

- (A) Knowing the concept of Micro finance India
- (B) Study the role of Micro finance in India
- (C) Studying Small Financial Models in India

Research Methodology:

This is a Vision Study based on the Second Data source. Secondary data are used to illuminate conceptual analysis and book reviews. The second source of research data are reports of the Role of Microfinance in India. In addition to these book articles, journals.

Definition:

Asian Development Bank defines Microfinance as the provision of a variety of services such as savings, deposits, debt, payments, services, transfers and insurance to poor and low-income homeowners and their small businesses.

Microfinance Development Regulation Bill defines Microfinance as the provision of financial services and insurance services to the individual or customer directly or through a group plan with a maximum of Rs. 50,000. in the integration of individuals through housing or other fixed purposes.

Microfinance:- Literature Reviews:

- 1. Malcolm Harper (2002)** in his paper "Grameen bank groups & self help groups; what is the difference?" showed your pros and cons in both the system.
- 2. Bindu Ananth (2005)** in his paper entitled "Financing microfinance - ICICI Bank partnership model" analyzed the model for financing small financial institutions. This paper compared three microfinance funding models. The three models were the self-help banking model of the self-help group, the financial intervention by small financial institutions and the corporate model - MFI as an employee.
- 3. Jamie Bedson (2009)** edited a report entitled "Microfinance in Asia: styles, challenges and opportunities". The report included a comprehensive and comprehensive review of the literature Guarantee Initiative for Small Financial Institutions in Gujarat Page 29 content presented at Asia Microfinance Forum 2008 which met in Hanoi, Vietnam in 2008. The main purpose of publishing the report was to equip Micro Finance professionals with ideas on how to grow and strengthen their businesses and better help the bankers and the poor.
- 4. Bhole B. & Ogden S (2010)** in their paper entitled, "Group lending & individual lending strategies" compared the existence of a strategic plan between group borrowing and individual borrowing. The second data was considered for the purpose of the study.

5. Brijesh Rupapara & Jitendra Patoliya (2012) authored a book entitled “Problems faced by Microfinance Institutions & measures to solve it”. The book is divided into seven chapters which are the basics of micro finance, self-help groups, micro financial institution operations, urban and rural microfinance, small insurance, technology & microfinance and finally small business model models.

6. Sa-Dhan (2012) published a report entitled " Financial Inclusion – A study of the efficacy of banking correspondent model" for the purpose of studying different models of BCs, identifying its challenges and evaluating the different products and services offered by BCs. This study covered a variety of BC legal types such as SHG Federations, Societies, Trusts, non-profit companies and special purpose vehicles developed by Gujarat. key stakeholders including regulators - banks, technology providers, customers, non-clients, training centers and other marketing agencies.

7. Zuzana Harmincova & Karel J & a (2014) in their paper entitled " Microfinance around the world – regional SWOT Analysis " compared the performance of small funds in various developing regions of the world and analyzed the performance, efficiency, strengths and weaknesses, potential threats and opportunities of small financial markets.

Micro Finance in India

In the early 1980's, existing banking policies, procedures and systems were inadequate to meet the needs of the poor. With loans poor people often turn to informal sectors. NABARD recommended that other policies, programs and procedures should be implemented to save the poor from being held hostage by lenders. Thus microfinance was introduced in the banking sector.

Microfinance offers a wide range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low-income and small businesses. Microfinance is defined as “Financial Services (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 development in a developing country like India. It is expected to play a significant role in the fight against poverty and development. Mohammed Yunus was awarded the Noble Prize for using the concept of microfinance, by establishing Grameen Bank in Bangladesh. Low credit & small amounts are different. Microfinance is a small amount of money, provided as a loan from any bank or registered institution, and Microfinance includes many services such as loans, savings, insurance, transfer services, small loans etc.

Features of Microfinance:

- (i) It is an important part of local finance.
- (ii) Works with small loans.
- (iii) It basically caters to poor families.
- (iv) It is one of the most effective and proven poverty alleviation strategies.
- (v) Supports women's participation in electronic activities.
- (vi) Provides inspiration for career opportunities.
- (vii) Focused on service and focused on making a small profit.
- (viii) Designed to help small business owners and producers.
- (ix) The poor borrowers often do not overreact to repay the loan as it is simple and
- (x) God-Fear.
- (xi) India needs to establish more small financial institutions.

Micro-finance role and importance Micro-finance contributes to the social and economic development of the nation in the following ways:

- (i) Poor people are unable to access banking services due to low income and inability to manage banking processes and document transactions. It is because of small funds that many financial services such as deposits, loans, payment services, transfers and insurance can be provided to poor and low-income people and small businesses.
- (ii) Microfinance institutions, through their NGOs, create savings practices for the poor. The cash-generating financial services and the minimal credit obtained from banks are used to provide loans and development to members of the Self Help Groups (SHGs). Thus, microfinance institutions help consolidate savings and similar spending on the well-being of their members.
- (iii) Loans on a regular banking system require collateral or a counter guarantee that poor people will not be able to provide it, they cannot borrow it. Also, high interest rates and writing procedures and rules serve as a barrier for poor people to access banks for loans. Microfinance eliminates all these barriers and provides easy access to finance for rural and poor people.
- (iv) Micro-Finance allows poorer sections of society to access credit at cheaper rates to help them start their own businesses at lower rates, grow their businesses out of poverty and become independent and independent. It helps to create long-term financial independence among the poorest sections of society and, therefore, promotes independence among them.
- (v) Micro-finance is provided through mediation of Self Help Groups (SHGs). More than 50% of Self Help Groups (SHGs) are made up of women. Now, they have greater access to financial and savings services. It is a step towards greater protection for women. Therefore, micro-finance empowers poor women economically and socially.

Microfinance Models:-

Grameen Model:

It is one of the most effective Micro Finance methods. The model was started with a group of five members. Compulsory donations will be placed in a savings fund and group insurance. Each member retains his or her savings account and bank loan after donating to the group, members will receive a bank loan. The obligation to pay is individual. The loan is granted for a period of 6 months to 1 year and payment must be made weekly. Timely visits are made by bank officials to monitor records and financial transactions. This model is accepted in 40 countries in Asia, Africa and Latin America.

Joint Liability Group Model:

Members from these groups of 4 to 10 form a group. Team members can get a bank loan against a co-operative guarantee and there is no condition for their savings fund. All members are jointly bound by a joint loan agreement. This model is followed by many small financial companies in India. Empowerment progress in this model is very limited. Many other countries also follow this pattern.

Individual Borrowing Model:

A person can get a personal loan without consulting a group. Financial institutions should carefully monitor the individual's financial situation. It is very successful in a larger, urban-based, manufacturing-based business. This model is used in many developing countries such as Egypt, Indonesia, Senegal, India.

Group Approach:

The entire financial process in a group setting is funded by financial institutions. Functions such as savings, loans, debt repayments are controlled at the group level. There may be 10 - 20 members who will have a standard fund that will be combined as a regular fund. Loans are issued by financial institutions on behalf of the group. The payment schedule is made by the financial institutions of the group and field staff visit and monitor the payment process. In India this method is known as the SHG Bank Linkage Program which is the most popular model to follow.

Rural Bank Model:

This model was developed in Bolivia in the 1980s by the Foundation for International Community Assistance. The village bank is being built by building 30 to 100 members who are low-income and want to improve their livelihoods. MFIs lend money to banks and lend money to members. Loan rates are linked to the aggregate amount maintained by individual bank members. The loan is repaid with weekly instalments.

Self Help Group (SHGs) Model:

SHGs are informal and uniform groups with 10 to 20 members each. These groups are formed by officials of banks, NGOs and other institutions at the village level. The group is named and each team has a leader, cash and secretary chosen by the team members to manage the group's affairs. Members enjoy regular voluntary savings. Team members decide equally on the amount of savings to be credited to the group account. These amounts are used for internal borrowing in exchange for low interest rates.

MICROFINANCE VISION CONTROL:

The recent crisis in Andhra Pradesh in 2010 has caused the entire microfinance industry to change due to debt. This paved way to form a Malegam Committee by the Reserve Bank of India leading to a significant reduction in loan repayment. Low payment rates make small financial institutions suffer huge losses. To address this issue, the Reserve Bank of India appointed a small committee known as the Malegam Committee. The committee analyzed the errors of the collection processes, interest rates. The Malegam Committee issued the recommended rules in 2011 and these rules were approved by the RBI. The regulations are amended and enshrined in the Small & Medium Finance Institutions Bill (2011) which provides for the regulatory framework for microfinance institutions.

Conclusion:

Based on this paper Microfinance plays an important role in India's Micro Finance sector in the urban sector in order to develop domestic marks and provide better, faster and more affordable financial systems. The use of Infotech for Micro Finance is also commendable with the advent of computer technology and emerging communications, which can be used as an easy tool for rural people to use and finance the proposed project to make the rural economy a dream come true. The rural economy can therefore contribute to the growth of the country's economy through the adoption of a mix of Infotech and microfinance.

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