JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

A CONCEPTUAL STUDY OF MICRO FINANCE IN INDIA

Shri Jagadeesh S Barangiyavar
Department of Economics
KLE Society's B. K. College, Chikodi-591201

Abstract

In a country like India where 70 percent of its population lives in rural area and 60 percent depend on agriculture (according to the World Bank reports), micro-finance can play a vital role in providing financial services to the poor and low income individuals. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. The importance of micro-finance in the developing economies like India cannot be undermined, where a large size of population is living under poverty and large number of people does not have an access to formal banking facilities. The taskforce on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD defined microfinance as "the provision of thrift, saving, credit and financial services and products of very small amount to the poor's in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living." (Sen, 2008) Micro-finance is regarded as a useful tool for socio- economic up-liftmen in a developing country like India. It is expected to play a significant role in poverty alleviation and development. There are two broad approaches that characterize the microfinance sector in India is Self Help Groups (SHGs)-Bank linkage programme and Microfinance Institution (MFIs). In India microfinance is dominated by Self Help Groups (SHGs)-Bank linkage programme aimed at providing a cost effective mechanism for providing financial services to the unreached poor. The present paper aims at identifying the current status and role of microfinance in the development of India.

Keywords: Microfinance; SHGs, MFIs; Status and Growth of Microfinance

Introduction

According to the International Labor Organization (ILO), Microfinance is also defined as, ***"An economic development approach that involves providing financial services through institutions to low income clients"***. Alternatively, the second definition of the same stated by "The National Microfinance Taskforce, 1999" states that, "***it is the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards"***. An article on **Microfinance - A small ideal with a big impact**, stated that "The poor become poor, not because they are lazy but because they have no work to do and no access to capital". Alternatively, the definition of finance is simple as it simply quotes that it is the, "management of money". Management of money means acquiring and using money. Now microfinance word is created from bringing the finance and money related definitions together to conclude that in simple terms, we are financing the micro entrepreneurs. As already stated microfinance is emerged in need of acquiring special goals to empower under-privileged of the society. The underprivileged of the society can include women, men, low caste, etc. The principles of microfinance have been established on the philosophy of cooperation, equality, equity and self-sustenance. In the heart of these underlined principles is the concept of human development and brotherhood expressed via people working together to live a better life for themselves and their children. It is stated that traditionally microfinance was used to provide standardized credit to the poor. Now there is earnest longing to use microfinance as just not a product of credit but rather a quality credit that extends good livelihood for those that have the capability and potential to sustain their livelihood. This paper reflects microfinance as a quality measurement than the quantity measurement. Microfinance plays a huge role in changing one persons or a family's life. Further on, this research will unfold to share more secrets on microfinance in today's world.

Objective of the Study

1. To study the concept of microfinance.
2. To study the importance and Role of Microfinance in north India especially in Rajasthan
3. To analyze the current status and growth of Micro Finance Institution in north India especially in Rajasthan.

Need of the Study

1. In the context of necessity of credit for the growth of Micro-Enterprises and realizing the importance of
2. Microfinance Institutions, an attempt is made to study the role of Microfinance Institutions on the growth and
3. Development of Micro-Enterprises.

Research Methodology

This is descriptive research paper based on secondary data. Data have been collected through book, various websites, Magazines, Newspaper and publications of recent research papers available in different websites, Research Articles, Research journal, E- journals, RBI Reports, Reports of NABARD etc.

The History of Current Microfinance

The concept of microfinance is said to have evolved in the late 1970s. Although a long history is associated with microfinance the primary involvement or use of microfinance has been stated to start from the beginning of the 20th century. There were numerous credit groups that were operating globally for example the "TINY FUND" in India, "Tonties" in West Africa, "Susus" in Ghana, "Pasanaku" in Bolivia and etc. In addition to the mentioned, there were many credit and formal savings institutions that have long been working throughout the world.

In the 1990s it is stated that the poor from the rural and urban Europe formed credit institutions. These institutions were recognized as Credit Unions or People's Bank etc. The goal of these institutions was to provide smooth or easy access to finance to the poor people overlooked by the huge financial institutions and banks. It is also stated that during the early 1970s, few experiential programs on microfinance had started in Brazil, Bangladesh and some other countries. The micro credit was based on group lending as mentioned above where the peer group members took the responsibility of paying the loan. Some of the banks and financial institutions pioneered the microfinance program after 1970. ACCION International is the institution established by a law student from Latin America. The purpose of this institution was to help the poor people residing in the urban and rural communities of the Latin America. In the year 2008, it is marked as one of the most influential and efficient microfinance institutions of the world. Its networking partners consist of the United States of America and Africa. The SEWA bank was established in the year 1973 named as Mahila SEWA cooperative bank with the aim of accessing financial services easily. The meaning of SEWA is, „The Self Employed Women's Association". As for the updates on this bank, it is stated that the bank accommodates over 30,000 clients. The Grameen Bank was founded by Dr. Mohammad Yunus in the year 1983 who began experimenting in lending financial services to the poor women population in the village of Jobra, Bangladesh. He has served as a professor of economics at Chittagong University in the 1970s. This bank is unlike the lending cooperatives and the Credit Unions 7 that have been around for years. Since the time the Grameen Bank was established, innovation in microfinance continued and financial services to the poor never stopped. It is stated by the World Bank that estimated number of 160 million people in developing countries are services by microfinance, Grameen Bank in Bangladesh established by Dr. Muhammad Yunus in 1983. This bank is stated to serve approximately more than 400,000 underprivileged populations in Bangladesh. In addition to the stated, this bank has received Nobel Prize in the year 2006 and it has also stimulated the formation of other microfinance institutions like PROSHIKA, BRAC and ASA.

Microfinance in the 21st Century

It is stated that over the last ten years there has been successful experiences in providing finance to small entrepreneurs. Small entrepreneurs being the poor people where able to demonstrate that they were able to repay their loans and in return increase their income and assets. They were productive and worked in timely manner to meet the needed guidelines and policies of financial services. It has also been demonstrated that Community banks, NGOs and grass root savings and credit groups around the world have proved that these microenterprise loans are profitable for borrowers and vice versa for the lenders, hence proving that microfinance is one of the most effective poverty reducing strategies.

Concepts and Definition

Over the past decade, India's microfinance sector has markedly expanded its operations, significantly enhancing its lending capacity and outreach. This analysis delves into the sector's contribution to the national economy through Gross Value Added, an indicator of economic output and employment. It also scrutinizes the demographics of microfinance borrowers, encompassing both households and businesses. Supported by data from Non-Banking Financial Company–Microfinance Institutions (NBFC–MFIs), the study aims to comprehensively cover the entire microfinance landscape, including all MFIs and bank-linked Self Help Groups (SHGs). Many nations utilize microfinance as a tool to alleviate poverty and generate wealth. Microfinance has garnered global attention due to its objectives, policies, and impact.

In the early 1980s, inadequate banking policies compelled the poor to seek loans from unregulated sources. NABARD proposed alternative policies to shield them from moneylenders, leading to the introduction of microfinance, which offers various financial services to low-income households and micro-enterprises, thereby enhancing their income and living standards. In India, microfinance is viewed as a means for socio-economic upliftment and poverty alleviation. Mohammed Yunus received the Nobel Prize for founding the Grameen Bank in Bangladesh, which pioneered microfinance in 1970.

The microfinance services in India are primarily provided through two distinct models: the SHG Bank Linkage Model and the Microfinance Bank Model. The microfinance movement in India traces back to the SHG-Bank Linkage Programme by NABARD in 1992, which has become the most popular model in the country. The regulatory framework includes commercial banks, Regional Rural Banks (RRBs), SHGs, cooperatives, and MFIs, with the Reserve Bank of India (RBI) overseeing banks and NBFCs, NABARD overseeing SHGs, and the Registrar of Co-operative Societies (RCS) overseeing cooperatives. The Microfinance Bank Model is also gaining importance due to the substantial support it receives from banks, especially new-generation private sector banks and foreign funding agencies. It is crucial to distinguish between microcredit, which refers to a small loan, and microfinance, which encompasses loans, savings, insurance, and transfer services.

Table-1 Progress under SHG-Bank Linkage Programme (2018-19 to 2022-23)

Sl. No.	Year	No. of SHGs with saving linkage (in lakhs)	Amount of saving outstanding (Crores)	No. of SHGs with availed loans during the year (in lakhs)	Amount of loans disbursed during the year (Crores)	No. of SHGs with loan outstanding (in lakhs)	Amount of loans outstanding the year (Crores)
1	2018-19	100.14	23324	26.98	58318	50.77	87098
2	2019-20	102.43	26152	31.46	77659	56.77	108075
3	2020-21	112.23	37478	28.87	58070	57.8	103289
4	2021-22	118.93	47240	33.98	99729	67.4	151051
5	2022-23	134.03	58893	42.96	145200	69.57	188078

Table 1 indicates a significant rise of Rs. 34 Lakhs (13%) in the number of SHGs linked to savings and an increase of Rs. 35,569 crore (25%) in the savings amount during 2022-23 compared to 2018-19. Both the number and amount of SHG savings with banks exhibit a positive trend over the past five years. A similar upward trajectory is observed in the number and amount of SHGs with outstanding loans from banks over the same period. Loans disbursed to SHGs have consistently increased over the past five years, both in physical and financial terms, rebounding from a decline in FY 2021 due to the pandemic.

Table-2 Region wise share in number of savings-linked with SHGs in percent (2018-19 to 2022-23)

Sl. No.	Year	Northern	North Eastern	Eastern	Central	Western	Southern
1	2018-19	5.48	5.23	20.57	10.61	13.87	38.31
2	2019-20	5.63	5.44	27.44	11.08	14.39	36.52
3	2020-21	5.43	5.7	27.82	11.49	13.81	35.30
4	2021-22	5.7	5.7	27.3	11.4	14.2	35.7
5	2022-23	5.9	5.9	29.3	13.7	14.4	30.8

Table 2 delineates the regional distribution of savings linked to Self-Help Groups (SHGs) as a percentage from 2018-19 to 2022-23. In the fiscal year 2022-23, the Southern region attained the highest percentage share of savings-linked SHGs, accounting for 30.8 per cent. This was closely followed by the Eastern region, which constituted 29.3 per cent. The Western region accounted for 14.4 per cent of the savings-linked SHGs during the same period

Table-3 Region wise average savings per SHGs in rupees (2018-19 to 2022-23)

Sl. No.	Year	Northern	North Eastern	Eastern	Central	Western	Southern	All India
1	2018-19	11384	7719	22648	12536	14783	33632	23291
2	2019-20	10318	8644	23632	15084	13697	39848	25531
3	2020-21	28590	13117	24818	15746	24128	53752	33392
4	2021-22	29344	15634	41881	24027	19408	56692	39721
5	2022-23	15548	15634	44332	25036	28098	70111	43940

The Southern region recorded the highest average savings per SHG at Rs. 70,111 during 2022-23, followed by the Eastern region with Rs. 44,332 and the Central region with Rs. 25,036. The data for different regions indicates an overall increase in average savings per SHG from 2018-19 to 2022-23, except for the Northern region, which experienced fluctuations. This information is presented in Table 3.

Micro Finance (Small and Tiny Enterprises)

Over the last five decades Indian Tiny, Micro and Small Enterprises sector has emerged as a highly dynamic and vibrant sector. It is not only help in industrialization of rural & backward areas but also play a key role in providing employment opportunities. Thus, it is reduces the regional imbalances and assure equitable distribution of national income and wealth. It is complementary to large industries as ancillary units and it contributes immensely to the socio-economic development of India. As per the Tiny, Micro and Small Enterprises Development Act, 2006, A Micro-Enterprise is defined as a enterprise where the investment in plant and machinery does not exceed twenty five lakh rupees; A Small- Enterprise, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; A Medium-Enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees". Accordingly, as per this definition micro, small and medium enterprise is:

Micro Credit

Credit is one of the critical inputs for economic development. Its timely availability in the right quantity and at an affordable cost goes a long way in contributing to the well-being of the people especially in the lower rungs of society. Much of the current interest in microcredit stems from the Microcredit Summit (2-4 February 1997), and the activities that went into organizing the event. The definition of microcredit that was adopted there was: Microcredit programmes extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families". Micro Credit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi urban and urban areas for enabling them to raise their income levels and improvement of living standards. Microcredit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. It has proven an effective and popular measure in the on-going struggle against poverty, enabling those without access to lending institutions to borrow at bank rates, and start small business.

Micro Finance

Microfinance refers to an array of financial services to low-income individuals or to those who do not have access to typical banking services. As per the RBI master circular on micro credit, Micro Finance is defined as „A provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards". Microfinance provides the access to financial services to the low-income individuals or to small and medium size enterprises. Microfinance is the supply of loans, savings, and other basic financial services to the poor. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development. As microfinance institutions focuses on the low-income group, it often uses nontraditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector. Microfinance is not a new concept. Small microcredit operations have existed since the mid- 1700s. However, the pioneering of modern microfinance is often credited to Dr. Mohammad Yunus, who began experimenting with lending to poor women in the village of Jobra, Bangladesh during his tenure as a professor of economics at Chittagong University in the 1970s. In 1983 he formed the Grameen Bank, meaning „village bank" founded on principles of trust and solidarity and won the Nobel Peace Prize in 2006. Since then, innovation in microfinance has continued and providers of financial services to the poor continue to evolve. Today, the World Bank estimates that about 160 million people in developing countries are served by microfinance. As per Grameen Bank, Microfinance is a source of financial services for small businesses and entrepreneurs lacking access to banking and related services of bank.

The Clients of Microfinance

This paper is reflective of the low-income and underprivileged groups that may be self-employed or small scale house hold entrepreneurs such as farmers or small industrialist from the rural settings. Microfinance for the poor means it is for those that has limited access or no access to formal financial institutions. Unlike, the urban dwellers like shopkeepers, artisans, providers, and street vendors etc, those that can depend on other conventional financial institutions for the sustenance of their businesses. It is stated that the poorer you are, it seems less likely that you have the access to the conventional formal financial institutions. Additionally, the informal financial arrangements also seem more expensive and seem to be unreasonable for ordinary poorer person. The strength of the microfinance therefore reflects the weaker population of our society those that are excluded from the norms.

Role and Importance of Microfinance

According to the research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living. Thus Microfinance plays a major role in upliftment of Indian economy in following ways:-

Credit to Rural Poor:-Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.

Poverty Alleviation:-Due to micro finance poor people get employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.

Growth of Microfinance

Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene in dominated by SHGs Bank linkage programme as a cost effective mechanism for providing financial services to the unreached poor which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self-help capacities of the poor leading to their empowerment. Rapid progress in SHGs formation has now turned into an empowerment movement among women across the country. The SHG - Bank Linkage Programme started as an Action Research Project in 1989. In 1992, the findings led to the setting up of a Pilot Project. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non-Governmental Organizations (NGOs).The SHG Bank linkage Programme which started in 1992 has grown exponentially over two decades and around 74.62 lakh SHGs are linked to different Banks up to 2011 of these nearly 65 per cent have direct credit link with bank.

Out of these 74.62 lakh SHGs 60.98 lakh are women SHGs. The overall progress under microfinance from the period 2006-07 to 2010-11 is presented in table-1**.**

Conclusion

The potential for growing micro finance institutions in India is very high. Major cross-section can have benefit if this sector will grow in its fastest pace. Annual growth rate of about 20 % during the next five year. The loan outstanding will consequently grow from the present level of about 1600 crores to about 42000 crores Annual growth rate of about 20 % can be achieved during the next five years.

The economic development of any country is severely influenced by the availability of financial services. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. A well-developed financial system promotes investment opportunities in an economy. Therefore it is necessary that govt. of India have to focus on extending financial services to both rural and urban to ensure sustainable and inclusive growth.

References

1. Basu, P., & Srivastava, P. (2005). Scaling-Up Access to Finance for India’s Rural Poor. The World Bank
2. Chowdhury, A., & Bhuiya, M. (2014). Microfinance and Poverty Reduction: Evidence from India. In South Asia Economic Journal, 15(1), 93–110.
3. Karmakar, K. G. (2008). Microfinance in India. SAGE Publications.
4. NABARD. (2021). Status of Microfinance in India 2020-21. https://www.nabard.org.
5. Planning Commission of India. (2012). Microfinance and Financial Inclusion: A Roadmap.
6. RBI (Reserve Bank of India). (2022). Report of the Expert Committee on Microfinance. https://www.rbi.org.in
7. Seibel, H. D. (2005). Does History Matter? The Old and the New World of Microfinance in Europe and Asia. In The Journal of Microfinance, 7(1), 1-20.
8. Sinha, F. (2009). Microfinance Self-Regulation in India: A Case of the Self-Employed Women's Association (SEWA). In Development in Practice, 19(2), 244–255.
9. Swain, R. B., & Varghese, A. (2009). Does Self Help Group Participation Lead to Asset Creation?. In World Development, 37(10), 1674–1682.
10. Yunus, M. (2007). Creating a World without Poverty: Social Business and the Future of Capitalism. PublicAffairs.