

MICROFINANCE IN INDIA

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ABSTRACT

Microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities /small businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor that lack access to traditional formal financial institutions require a variety of financial products.

The Eleventh Five Year Plan aims at inclusive growth and faster reduction of poverty. Micro Finance can contribute immensely to the financial inclusion of the poor without which it will be difficult for them to come out of the vicious cycle of poverty. There is a need to strengthen all the available channels of providing credit to the poor such as SHG- Bank Linkage programmes, Micro Finance Institutions, Cooperative Banks, State financial corporations, Regional Rural Banks and Primary Agricultural Credit Societies. The strength of the micro finance industry lies in its informality and flexibility which should be protected and encouraged.

The study investigated the SHG and the MFI model of clients their ability to save and access loans, economic activity. Comparative Analysis of Micro-finance Services offered to the poor decision making within the household.

For the study both primary and secondary data was used. The well structured questionnaire has been used for the collection of primary data from the respondents for the purpose of understanding awareness- local issues, MFI procedures, banking transactions, skills for income generation. This study used descriptive analysis technique to analyze the data.

Keywords: *Activities in Microfinance, Legal Regulations, Services provided by micro finance institutions.*

I. INTRODUCTION

Microfinance is defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing.

II. ACTIVITIES IN MICRIFINANCE

Microcredit: It is a small amount of money loaned to a client by a bank or other institution. Microcredit can be offered, often without collateral, to an individual or through group lending.

Micro savings: These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order to meet unexpected expenses and plan for future expenses.

Micro insurance: It is a system by which people, businesses and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their businesses while mitigating other risks affecting property, health or the ability to work.

Remittances: These are transfer of funds from people in one place to people in another, usually across borders to family and friends. Compared with other sources of capital that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds.

III. LEGAL REGULATIONS:-

Banks in India are regulated and supervised by the Reserve Bank of India (RBI) under the RBI Act of 1934, Banking Regulation Act, Regional Rural Banks Act, and the Cooperative Societies Acts of the respective state governments for cooperative banks.

NBFCs are registered under the Companies Act, 1956 and are governed under the RBI Act. There is no specific law catering to NGOs although they can be registered under the Societies Registration Act, 1860, the Indian Trust Act, 1882, or the relevant state acts. There has been a strong reliance on self-regulation for NGO MFIs and as this applies to NGO MFIs mobilizing deposits from clients who also borrow.

This tendency is a concern due to enforcement problems that tend to arise with self-regulatory organizations. In January 2000, the RBI essentially created a new legal form for providing microfinance services for NBFCs registered under the Companies Act so that they are not subject to any capital or liquidity requirements if they do not go into the deposit taking business. Absence of liquidity requirements is concern to the safety of the sector

SERVICES PROVIDED BY MICRO FINANCE INSTITUTIONS:-

So many services provide by MFI. Providing loans; car financing; home financing, personnel loans, group loans, education loans.

IV. PROVIDING LOAN

The important service is provided by MF is given loan. These loans are provided from some productive activities like; starting new business, expansion of business; improving life etc.

V. CAR FINANCING

MFI also assist those people who cannot pay total amount at once. So, these MFI gave them car on instalments like UBL car financing scheme is too popular and too many people taking advantage from this scheme.

VI. HOME FINANCING

Purchasing power of people is very low. So many people are living on rent. They cannot have too many amounts to purchase homes. MFI's provide loans be considering their job stability and take security for it.

VII. PERSONNEL LOANS

MFI also obtain personnel loans. Those people who have permanent employment and stable jobs. This credit facility depends on the income of an individual.

VIII. EDUCATIONS LOANS

MFI also provide financial aid to the students who cannot bare educational expenses but want to study. MFI assist them in return of some security and it would have to pay after completing the education.

IX. CHALLENGES AND OPPORTUNITIES OF MICRO FINANCING

The Government has indicated its willingness to speed up the pace of structural reforms to meet the major challenges of:

9.1 Reducing Poverty

The basic motto of the government to eliminate the poverty and bring prosperity in the country. MFI providing small loans and other credit facilities to the poor and low-income groups; which are beginning positive changing like their standard of living group and earning have increased.

9.2 Improving Social Indicators

Inadequate access to productive resources and social services has resulted low social indicators and low employment opportunities. This situation is compounded in rural areas; where access is more difficult. So, by providing small loans and credit facilities they can overcome this issue and can improve social indicators.

9.3 Improving the Fiscal and Balance of Payments Positions

Balance of payment always in deficit, because of low productivity, lack of resources and lack of productive men's power. If MIF provide loans new business can be established. And export of can be improved which create balance of payments.

9.4 Restoring Investor Confidence

Due to poor economy of country investors are hesitating to invest their money but MFI'S can boost up. Because provide loan to local people new business will stable. Economy will go up and this situation may motivate to them for investing their fund.

X. LITERATURE REVIEW

These literatures include books written on the subject by experts and also journals, manuals etc. In fact, there are very few literatures available, regarding socio-economic, political and entrepreneurial development of women. Philanthropic views and ideas of great people also reviewed. Most of the studies are more general in nature and some are more scientifically. "The habit of looking upon marriage as the soul economic refuge for women will have to go before women can have any freedom. Freedom depends on economic conditions, even more than political, and even if women is not economically free and self earning she will have to depend on the husband or

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someone else, and dependents are never free” (Jawaharlal Nehru). Dr.C.Rangarajan (2006) in his topic ‘Microfinance and its future directions’ in the introductory part of the book, outline the evolution of SHG through microfinance evolve through in three stages. First, to meet survival requirement need, in the second stage is to meet the subsistence level through investing in tradition activities and in the final stage by setting up of enterprises for sustainable income generation. Robert

Peck Christen (2006) in his paper “Microfinance and Sustainable International Experience and lesson for India”, he articulates the changing general perception of bankers, that SHGs are profitable clients or bank. Lanmdau Mayoux’s study (1998) on Participatory Learning for Women’s Empowerment in Micro Finance Programs (IDS Bulletin, Vol. 29 No.4, 1998) proposes a participatory approach for integrating women’s empowerment concerns into ongoing programs learning, which itself would be a contribution to empowerment. Micro finance programs for women are currently promoted not only as a strategy for poverty alleviation but also for women’s empowerment.

The current literature on micro finance is also dominated by the positive linkages between micro finance and achievement of Millennium Development Goals (MDGs). Micro Credit Summit Campaign’s 2005 report argues that the campaigns offers much needed hope for achieving the Millennium Development Goals especially relating to poverty reduction. IFAD along with Food and Agriculture Organization (FAO) and the World Food Programmed (WFP) declared that it will be possible to achieve the eight MDGs by the established deadline of 2015 “if the developing and industrialized countries take action immediately” by implementing plans and projects, in which micro credit could play a major role (Alok Mishra,2006).

Mark Schreiner (2003): A Cost-Effectiveness Analysis of the Garmin Bank of Bangladesh.

Reports of the success of the Garmin Bank of Bangladesh have led to rapid growth in funding for microfinance. But has the Garmin Bank been cost-effective? This article compares output with subsidy for the bank in a present-value framework. For the timeframe 1983–97, subsidy per person-year of membership in Garmin was about \$20, and subsidy per dollar-year borrowed was about \$0.22. The Garmin Bank — if not necessarily other micro lenders — was probably a worthwhile social investment.

10.1 David Hulme:

This paper reviews the methodological options for the impact assessment (IA) of microfinance. Following a discussion of the varying objectives of IA it examines the choice of conceptual frameworks and presents three paradigms of impact assessment: the scientific method, the humanities tradition and participatory learning and action (PLA).

RESEARCH PROBLEM:-Does Microfinance really help people by providing Financial Inclusion?

XI. RESEARCH METHODOLOGY

11.1 Research Objectives

This paper is done to know the awareness of microfinance among the people.

Find out the issue of the micro finance

Comparative Analysis of Micro-finance Services offered to the poor.

How does the client of two main models of microfinance, the SHG and the MFI model, differ?

Hypothesis of the study:

Our study hypothesis include

Microfinance has had a significant positive impact on household income

Participation in Microfinance programs significantly reduces household vulnerability to poverty.

11.2 Research Design:

The type of research that is being used in this report is the descriptive one as in this particular type of research the researcher doesn't have any control over the present scenario of the things that are being studied & we can only study the factors such as HOW,WHO,WHEN,WHAT etc.

Sampling Design & Type of Data Used:

Both the primary & secondary data will be used in this study.

Sample Size:-The population of the sample would be 100 respondents.

Data Collection:

Source of Data Collection

Following are the major sources of data collection that have been used-

NABARD annual reports – various issues.

Reports issued by the government.

Research companies & trade directories.

Report on trend & progress of Indian banking.

11.3 Primary Data Collection:

The starting point for primary data collection over the internet in this research is the use of electronic mail.

Provision is made in the questionnaire to complete the form online and return it to the researcher. The following advantages are obvious:

Greater speed of delivery.

Higher speed of receiving responses.

Tremendous cost savings over regular mail.

Tools that have been used for data collection:-

Internet.

Newspaper.

Magazines.

Journals.

Publication.

Scope and Rationale of the study

This study has been carried out in the period of 2 months, so the results & interpretation will only be valid till said period.

Lack of resources required:- Another major constraint of the study is that the resources that had been required for its successful completion were not available at all the time when required.

XII. DATA INTERPRETATION

Q1- Are you aware about Microfinance:

S.No	Result	No. of respondent	Percentage
1	Yes	88	88
2	No	12	12

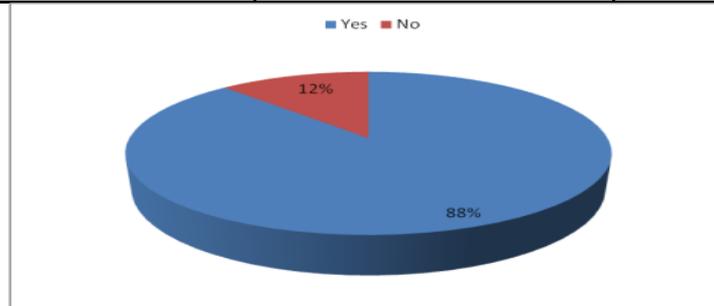


Fig:-1 Shows awareness about Microfinance

Interpretation:-From the above graph, we interpretative that 88% people aware about the microfinance & 12% people who unaware about the microfinance.

Q2- If yes, does Microfinance provides the better service than traditional bank service?

S. No.	Result	No. of respondent	Percentage
1	Yes	74	74
2	No	26	26

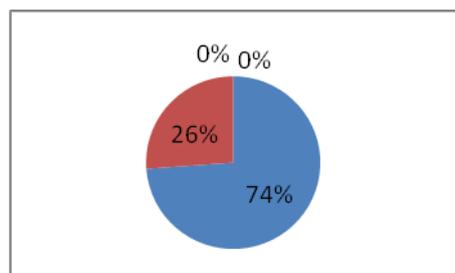


Fig:-2 Shows Microfinance provides the better service than traditional bank service

Interpretation:-From the above graph, we interpretative that 73.86% people consider that microfinance provides the better service & 26.14% people consider the traditional system of bank service is better.

Q3- Mostly for what purpose loan is taken through Microfinance?

S. No.	Purpose	No. of respondent	Percentage
1	Small business	28	28
2	Tiny/cottage industry or service activity	18	18
3	Artisan activity	15	15
4	Agricultural & Allied activity	22	22

5	Transport sector activity	17	17
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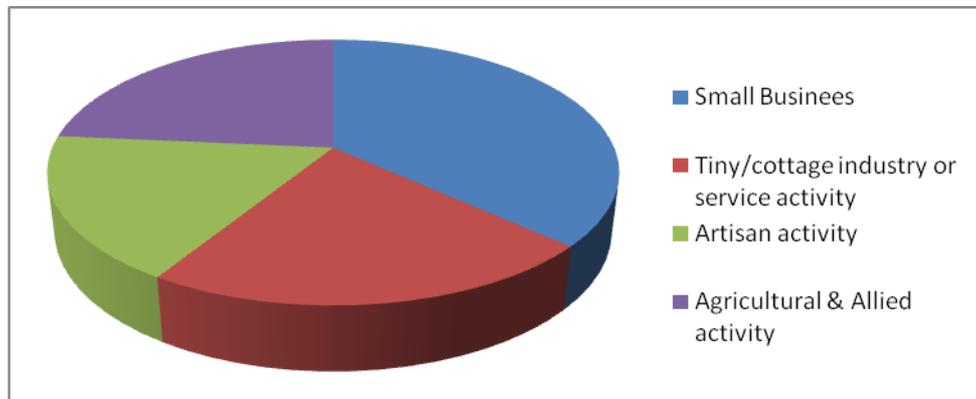


Fig:-3 Shows what purpose loan is taken through Microfinance

Interpretation:-From the above graph, we interpretation that 17% people take the loan for the purpose of transport sector activity, 22% people take the loan for the agricultural & allied activity, 15% people take the loan for the artisan activity, 18% people take the loan for the tiny/cottage industry & 28% people take the loan for the purpose of small business.

Q4-How much loan you have taken?

a) Less then 50000	50000 or more but less then 75000	75000 and above but less then 100000	More then 100000
25	15	12	48

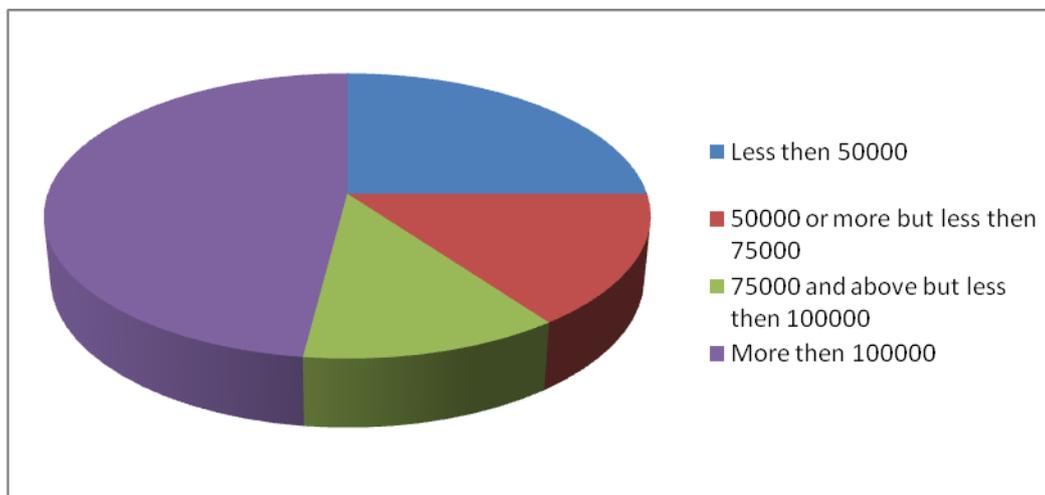


Fig:-4 Shows how much loan you have taken

Interpretation:-From above graph we can easily interpreted that mostly people take the loan more then 100000.

Q5-Do you feel that you become more self dependent after taking the loan through Microfinance?

S. No.	Result	No. of respondent	Percentage
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1	Yes	85	85
2	No	15	15

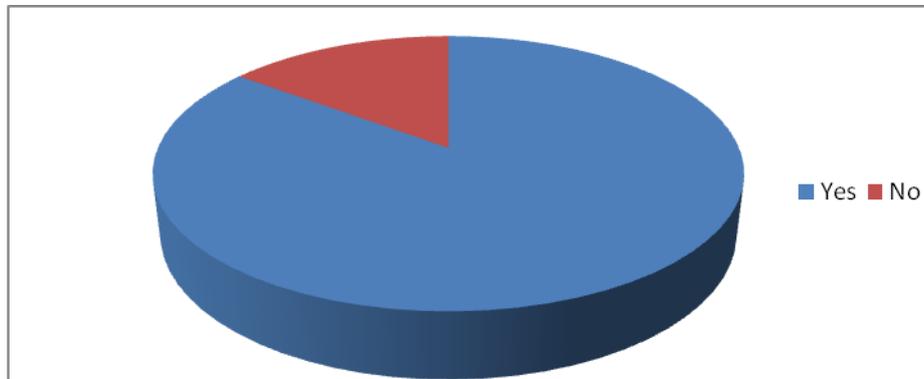


Fig:-5 Shows feel that you become more self dependent after taking the loan through Microfinance

XII. INTERPRETATION

From the above graph, we interpretation that 85% people consider that microfinance become the people more self dependent while 15% people consider that microfinance does not helpful to become the people more self dependent.

Q6- Do you have easily access to the Microfinance’s services?

S. No.	Result	No. of Respondent	Percentage
1	Yes	87.50	87.50
2	No	12.5	12.5

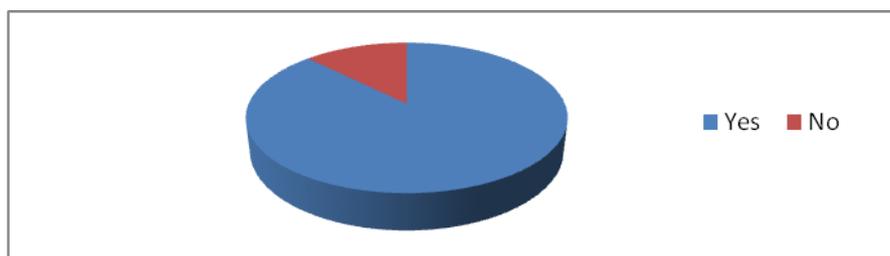


Fig:-6 Shows access to the Microfinance’s services

Interpretation:-From the above graph, we interpretative that 87% people consider that services of microfinance are easily accessible while 13% people consider that services of microfinance are not easily accessible.

S. No.	Result	No. of Respondent	Percentage
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1	Yes	89	89
2	No	11	11

Q7- Have you ever heard about SHG?

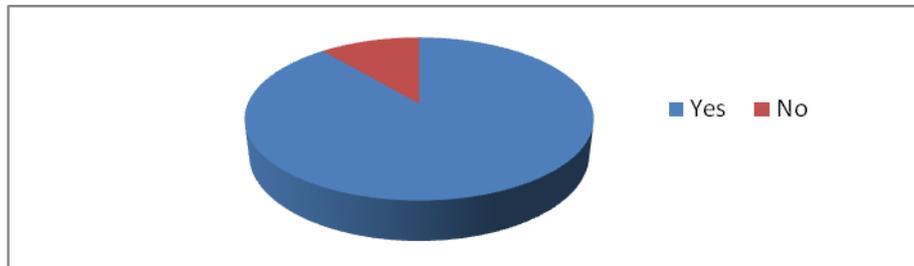


Fig:-7 Shows heard about SHG

Interpretation:-From the above graph, we interpretation that 89% people are aware about the SHGs while 11% people are unaware about the SHGs

Q8- Are you a member of SHG

S. No.	Result	No. of Respondent	Percentage
1	Yes	82	82
2	No	18	18

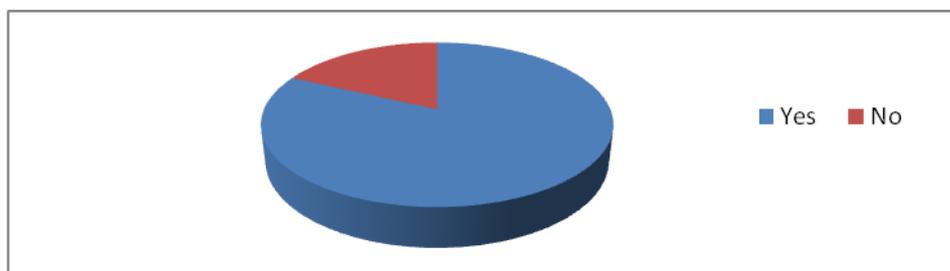


Fig:-8 Shows member of SHG

Interpretation:-From the above graph, we interpretative that 82% people who are the member of SHG while 18% people who are not member of SHG.

Q9- Does the SHGs have provided any training for effective use of loan?

S. No.	Result	No. of Respondent	Percentage
1	Yes	85.37	85.37
2	No	14.63	14.63

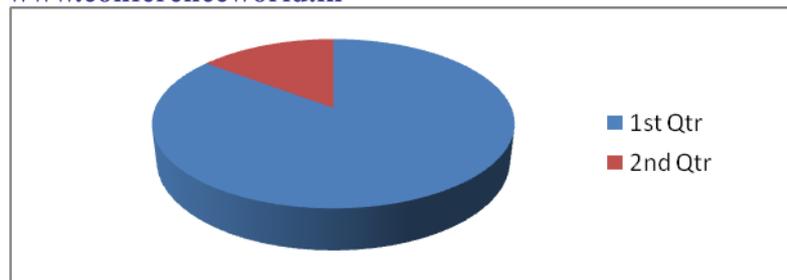


Fig:-9 Shows the SHGs have provided any training for effective use of loan

Interpretation:-From the above graph, we interpret that 85% people consider that SHGs provide training for effective use of loan while 15% people consider that SHGs do not provide training for effective use of loan.

FINDINGS:-

- Ability to save and access loans.
- Opportunity to undertake an economic activity.
- Mobility-Opportunity to visit nearby towns.
- Awareness- local issues, MFI procedures, banking transactions.
- Skills for income generation.
- Decision making within the household.
- Group mobilization in support of individual clients- action on social issues.
- Role in community development activities.

XIII. CONCLUSION

The legitimacy of microfinance is beyond doubt. In a context of growing financialisation, the poor more than anybody else need microfinance services. In the same vein, in a context where democracy remains mainly formal and inaccessible to the poorest, the collective approach (which is at the core of Indian microfinance through the Self-help-group concept) undeniably represents a tool for democratic practices and therefore for grass roots development, especially for women.

In practice, however, real effects are much more limited than what is usually presented. How far and under what conditions can microfinance combat poverty and contribute to grass roots development? The question is all the more acute in India, where microfinance has grown very fast and intensively over the last decade. After a first cycle of growth where the number of clients went from a few thousand to several millions, microfinance is nowadays at the core of many agendas, be they public or private. Indian microfinance, both in terms of the number of clients and the volume of credit disbursed, is not subjective any more. Because of the socio-economic, political, even cultural questions it raises, microfinance becomes a societal challenge. If it is indeed urgent not to let oneself be blinded by the surrounding optimism and not to under-estimate the present weaknesses of microfinance, it is equally necessary to identify efficient and innovative experiments in order to better reflect on the future of microfinance.

This is why this communication aims to shed light at the process of micro financialization in particular at the spatial dimension and dynamics. Findings on the spatial variation and changes in the development of the

microfinance sector can enhance our understanding of the complex processes of current regional development in India and can contribute to the formulation of innovative regional development policies.

XIV. RECOMMENDATIONS

The microfinance should be -

Designing financially sustainable models.

Aim for community participation & ownership.

Increase outreach and scale up operations.

Demonstrate that banking with the poor is viable.

Build professional systems and processes.

Ensure transparency and enhance credibility through disclosures.

Provide support for capacity building initiatives.

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