

Impact of Microfinance in India

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Abstract

The article underlines the impact of micro financing in the present time in India. It act as an anti-poverty vaccine in rural India. In a developing country like India, this is the well-known fact that much of the Indian population still resides in rural area with lack of facilities and knowledge and have minimum amount of money to meet their basic needs.

According to the report of the 2020 of World population this is the well-known fact that much of the Indian population still resides in rural area with lack of facilities and knowledge and have minimum amount of development indicator, complied with officially recognized source is 65.97%. . India the second largest populated country where 60% of the population work in agriculture sector, consequently which leads to underemployment and that in consequence further leads to low income per capita.

The income earned is too low that it is not sufficient for the people to meet with their basic needs. The role of micro financing plays a vital role in the lives of small businessmen in urban areas and entrepreneurs in under developed parts of India, and the people living in rural areas. The people of rural areas have very low access to the institutionalized credit, So micro financing works as a boon for the people living in rural areas which help them to have stability with respect to their financial issues.

Keywords- *Microfinanace , Microfinanace products*

Introduction

Microfinance is defined as , financial services such as savings account, insurance funds , and credit provided to poor and low income clients so as to help them increase their income , thereby improving their standard of living.¹ The basic feature of the microfinance is that these are the loans given without security.

Micro finance includes the following products:

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.

Micro savings:

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 micro savings 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.

Micro insurance:

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

The importance of micro insurance 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.

Facet of Microfinance

Some of the important features of Microfinance are listed below:

Microfinance do not require any collateral

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

The borrowers are generally poor people.

The purpose of microfinance is to lend a 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.

the money which can be availed under microfinance are 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.

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 found 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.

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.

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 an 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 micro financing .

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 are served by some 7000 microfinance institutions all over the world. In a gathering at a Microcredit Summit in Washington DC the goal was reaching 100 million of the world's poorest people by credit from the world leaders and major financial institutions.

The year 2005 was proclaimed as the International year of Microcredit by the economic and social council of the united nations 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 promotion should be inclusive the financial sector.

Make a supporting system for sustainable access to financial services.

Support strategic partnership by encouraging new partnerships and innovation to build and expand the outreach and success of microfinance for all.

Therefore in the year 2006, the founder of Grameen bank and mohd. Yunus were awarded with the noble prize for their efforts.

Importance Of Microfinance In India

The concept of microfinance has been highlighted since 1970s with an aim to uplift the poor section of the society and to enhance economic growth. Its importance has been amplified amidst global financial crisis when trust into formal banking system is shaken.

Microfinance in India plays a major role in the development of India. It act as an anti-poverty vaccine for the people living in rural areas. It aims at assisting communities of the economically excluded to achieve greater level of asset creation and income security at the household and community level. The utmost significance of microfinance in India is that it dispenses the access to the capital to small entrepreneurs. As it has been discussed above that microfinance in India is providing loans, insurance, access to savings accounts.

The concept of microfinance focuses on women also by granting them loans. It act as a tool for the empowerment of poor women as women are becoming independent, they are able to contribute directly to the well beings of their families and are able to confront all the gender inequalities. The major targets of microfinance are the poor rural and urban households and women too. The Reserve Bank Of India imparts no ceiling with respect to minimum and maximum amounts to be given as loan.

Credit is important to the poor people for maintaining the common imbalance in between the income and their expenditure. It is also vital to the poor people for the income generating activities like investing in marginal farms and other small scale self employment ventures. Their access to formal banking channels are low due to the lack of resources an nature of formal credit institutions. Consequently in India, Microfinance institutions and self help groups are leading to other traditional banking channels as they are catering the need of credit to poor people. It has contribute a lot in enhancing the quality of life of the poor people.

Therefore microfinance is not a financial system but a tool to alleviate poverty from the country and bring social change and especially to uplift the status of women in our country so they can become self reliance. There is a public interest the interest of microfinance and this is what makes it acceptable as valid goal for public policy.

Channels Of Microfinance

There are two channels through which microfinance is being operate in India:

SHG-Bank Linkage programme (SBLP) – In the year 1992 NABARD initiated this channel. This model incites women to unite together to form a group of 10-15 members. Where all the women belonging to financial backward classes contributes by giving their individual savings to the group at regular intervals. Thereafter, loans are provided to the members of the group by their contributions. Self-help groups {SHG} also at later stage provide loans for income generating activities.

Self-help groups has gained a lot of success in the past years and it got popular for contributing for the empowerment

of women. It has been observed that once these self-help groups reach to the level of stability, they function almost independently with minimal support from NABARD, SIDBI, and Non-governmental organizations.

Microfinance Institutions

The primary operation of these type of institutions is to have the provision of micro financing. They lend through the concept of joint liability i.e a group of 10-15 members who seeks loans either jointly or individually.

Microfinance Companies In India

Some of the microfinance companies that offer loans to the unbanked and under banked population in India as are follows:

Arohan financial banks
BSS microfinance pvt ltd.
Cashpor microcredit
Equitas microfinance pvt ltd
Asirvad microfinance pvt ltd
Bandhan financial services pvt ltd.
Disha microfin pvt ltd
Annapurna microfinance pvt ltd
Esaf microfinance and investments pvt ltd
Fusion microfinance pvt ltd

Lenders Offering Microfinance Loans To Mfs Institutions

Following are the lenders offering microfinance loans to the microfinance institution:

Reliance Money- Reliance company at the great rate of interest offers money to microfinance institutions. The required documentation is very limited.

ICICI Bank– Since last 10 years ICICI Bank has been a partner with the micro finance institutions and is successfully provide the loan to them. Currently the ICICI BANK is clearly focusing on setting up a profitable and cordial relation with microfinance institutions and also in the investing which can enable the growth of microfinance institutions in India.

State Bank of India - The state bank of India offers loans to the micro finance institutions and NGOs that act as intermediaries for financing the financial needs of poor sector of society.

AXIS Bank - Axis bank offers loans to those institutions that economically empower the small businessmen and low income earners.

DCB Bank - Development Credit Bank offers two types of product as part of micro financing these are term loans and loans to microfinance institutions for on lending purposes.

Concluding Remarks

As we all know financial institution are the integral part of our economy as it plays key role in economic development. Therefore, India financial institution are very strong but operations of the same are adverse, somewhere we are lacking in its implications. However micro finance plays the major role in the alleviation of poverty from the society. Many banks in India have initiated to lend money to the micro finance institution. It works towards the empowerment of women which is the great move towards the development of the country.

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