Institutions Of Microfinance In India

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ABSTRACT

Indian Financial system gives a framework to the economy. The four pillars of financial system are Financial Markets, Financial Institutions, Financial Instruments and financial services. Financial institutions act as back bone for building up the infrastructure and upgrading the standard of living of any economy.

The progress of a nation essentially lies in the development of infrastructure considering every single resident of nation. The development cycle moves with the help of citizens fulfilling their necessities, for example, food, garments, lodging, wellbeing, clean water, training, administration and ordinary and collective condition. The poor residents of the nation acquire for their living and pass it on towards the progression of the nation. In India about 30% of the population lives under the poverty. The poor residents living in country regions are not educated.

Microfinance program gives a chance to poor individuals to ascend by giving admittance to capital. The investigation lays the effect on the result of microfinance at individual and local level to build the tallness of pay, work, training, wellbeing, food, clean water, ability to settle on own choice and option to utilize long range interpersonal communication. A few examinations expresses that microfinance has an impressive idealistic effect in rising individual utilized and diminishing neediness though different investigations proposes that it's anything but an accommodating gadget in dispensing with poverty and produce business.

Keywords: Financial Markets, Financial Institutions, Financial Instruments, infrastructure, Financial Services.

INTRODUCTION

Indian Financial system gives a framework to the economy. The four pillars of financial system are Financial Markets, Financial Institutions, Financial Instruments and financial services. Financial institutions act as back bone for building up the infrastructure and upgrading the standard of living of any economy. Currently many banks and financial institutions aim at improvement of life for the weaker, subdued and down trodden sections of the society. Breaking the vicious circle of poverty and, oversized share of deprivations, womens’ access to education and eradication of domestic violence is of utmost priority. Life cycle needs, emergency needs and investment needs need to be taken care of by this network of BFSI in the country. Consumption and investment is the main issues in a developing country.

To execute the needs of oppressed individuals, there was again a need of an innovative program for credit. It was understood that larger aspect of the oppressed individuals are ladies who stayed less participative as they were disregarded by numerous projects. The destitution easing works undoubtedly were ineffective if ladies were not inspired and given chance to improve their condition. Additionally, easing of severe poverty, gender inequality and ladies strengthening were principle focus to accomplish under the Millennium Development Goals set by World Bank and Organization for Economic Co-activity and Improvement in 2000.

RECENT INNOVATIONS

In recent years, microfinance has been the subject of various innovations and experiments, from leveraging the hugely popular mobile banking industry, where mobile phones are used to send and receive...
money, for the purpose of microfinance, to the introduction of new loan products tailored to local contexts, such as machinery loans, harvest stock spaces, and cattle fattening loans.

Loan methodologies have also diversified, and the original model of supportive group loans pioneered by the Grameen Bank, which have become more complex and adapted to local realities. Currently, products such as micro-insurance and micro-savings, which previously took the back-seat to micro-credit, are seeing their popularity increase.

LITERATURE REVIEW

Microfinance gives credit administrations to destitute individuals and gives little advance to individual utilize and produce income and takes worry of their families and themselves. The program is working in different rising nations and no sufficient reporting on microfinance is directed. Different huge examination which are fitting to the ebb and flow research have been talk about beneath:

Chintamani Prasad Patnaik (2012) has inspected a view that microfinance is a response to the issue of provincial budgetary advancement market. Microfinance has had the option to progress the entrance of money to inappropriate poor and low pay families. It is significant that self improvement gatherings assume an indispensable job in such methodology. Microcredit development is seen as a drawn out viewpoint under self improvement gathering system, which infers innovation back up item market and human asset advancement.

Priyanka and Preethi (2014) contemplated the effect of microfinance in accomplishment of Millennium Development Goals. The investigation was led in specific regions of Ahemdabad City and Gujarat. The examination proposed that Microcredit and Microfinance have been perceived in decreasing destitution and creating independent work openings and tackling the issue of joblessness.

Nilakantan, R. et al. (2013) inspected the effect of microfinance on ladies strengthening from eastern India and information was gathered from Bandhan Microfinance Institutions. Meeting strategy was utilized for gathering the information. It was discovered that microfinance expanded the strengthening regarding youngster related choices, correspondence among people inside the family.

Vipin, Monu and Ritesh (2015) considered the current status and job of microfinance in the improvement of India. The examination centers around a fundamental pretended by microfinance in offering monetary types of assistance to the poor, for instance, stores, propels, portion organizations, money moves, assurance, speculation reserves, little scope credit, etc to low compensation individuals and study proposed that SHGs and MFIs assume an indispensable job in their turn of events.

Vishal Goel (2016) examined the job of microfinance as a device of neediness easing in provincial regions of chose regions of Gujarat by taking the reactions of SEWA Bank (Shri Mahila Sewa Sahakari Bank Ltd.) individuals. The investigation found that accessibility of advance has expanded the individual and family unit salary. The example size of 520 respondents which benefited small scale advance and 520 respondents which didn't profited small scale advances was taken for study. The investigation proposed that sway on neediness is estimated through changes in individual and family livelihoods. It clarified that accessibility of advance has brought about lessening the profundity of neediness among the helpless families.

Jennifer A. Ball (2019) inspected that little investigation into ladies ranchers in created nations. The paper investigates how much ladies ranchers are getting more equivalent to men ranchers and to recommends further commitments to the writing. Examinations of people ranchers' profitability and their admittance to and utilization of assets have not been investigated. Disclosures in these and different territories will be significant not just for their experiences into the horticultural business in created nations, yet in addition since they will illuminate, and be educated by, research on ladies ranchers in creating nations.
Nayak, A.K. also, Panigrahi, P.K. (2020) expressed Microfinance as a device for neediness easing has pulled in much consideration particularly after Grameen Bank of Bangladesh was granted the Noble harmony prize. Self improvement gatherings (SHGs) in India, are viewed as a productive component for conveying microfinance to poor people. Aside from giving monetary advantages, cooperation in SHG additionally brings for its people social and political reinforcing. This paper takes a gander at the impact of the level of interest in SHGs on the reinforcing (budgetary, social and political) of ladies SHG individuals. The examination likewise researches the effect of directing factors, for example, financial status, age, and spot of home, on the connection between the degree of cooperation and strengthening.

KEY PLAYERS OF MICRO FINANCE IN INDIA
1. National Bank for Agricultural and Rural Development (NABARD)
NABARD is an apex institution, accredited with all matters concerning policy, planning and operations in the fields of credit for agriculture and other economic activities in rural areas in India. NABARD was established in 1982 as a Development Bank, in terms of the Preamble of the Act, “for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected there with or incidental thereto” (Gurusamy, 2010). The corporate mission set by NABARD for making available microfinance services to the very poor envisages coverage of one third of the rural poor through one million SHGs by the year 2006-07. In November 1998, a high-powered Task Force on Supportive Policy and Regulatory Framework for Micro finance (henceforth referred to as the Task Force) was set up by NABARD at the instance of RBI. The objective of the Task Force were among others, to come up with suggestions for a regulatory framework that brings the operations of the Microfinance Institutions into the mainstream, to access the possible role of self-regulatory organizations and to explore the need for a separate legal framework for micro finance.

In discharging its role as a facilitator for rural prosperity NABARD is entrusted with:

- Providing refinance to lending institutions in rural areas.
- Bringing about or promoting institutional development.
- Evaluating, monitoring and inspecting the client banks. Besides this pivotal role, NABARD also:
- Acts as a coordinator in the operations of rural credit institutions.
- Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development.
- Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
- Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.
- Acts as regulator for cooperative banks and RRBs.

Major Activities
- Preparing of Potential Linked Credit Plans for identification of exploitable potentials under agriculture and other activities available for development through bank credit.
- Refinancing banks for extending loans for investment and production purpose in rural areas.
• Providing loans to State Government/Non-Government Organizations (NGOs) /Panchayati Raj Institutions (PRIs) for developing rural infrastructure. Supporting credit innovations of Non-Government Organizations (NGOs) and other non-formal agencies.

• Extending formal banking services to the unreached rural poor by evolving a supplementary credit delivery strategy in a cost effective manner by promoting Self Help Groups (SHGs).

• Promoting participatory watershed development for enhancing productivity and profitability of rain-fed agriculture in a sustainable manner.

• On-site inspection of cooperative banks and Regional Rural Banks (RRBs) and off-site surveillance over health of cooperatives and RRBs (www.farmer.gov.in).

2. **Self Help Groups (SHGs)**
   The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Muhammad Yunus. SHG was started and formed in 1975. The establishment of SHGs can be traced to the existence of one or more problem areas around which the awareness of rural poor is built and the process of group formation initiated. SHG are considered a new lease of life for the women in villages for their social and economic empowerment. SHG is a suitable means for the empowerment of women. Since SHGs have been able to mobilize savings from groups who were not normally expected to have any ‘saving’ and also to recycle effectively the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit needs of the poor (NABARD, 2004).

**Characteristics of SHGs**
The main characteristics of SHGs are as follows:

• The ideal size of the SHG is 10 to 20 members. (In a bigger group, members cannot actively participate)

• The group need not be registered.

• From one family, only one member. (More families can join SHGs this way)

• The group consists of either only men or of only women. (Mixed groups are generally not preferred)

• Women’s groups are generally found to perform better.

• Members have the same social and financial background. (Members interact more freely this way)

• Compulsory attendance. (Full attendance for larger participation)

**Functions of SHGs**
The following are the main functions of SHGs:

• The amount of savings may be small, but savings have to be a regular and continuous habit with all the members. ‘Savings first - Credit later’ should be the motto of every group member.

• The savings to be used as loans to members. The purpose, amount, rate of interest, etc. to be decided by the group itself. Enabling SHG members to attain loans from bank and repaying the same.

• In every meeting, the group will discuss and try to find solutions to the problem faced by the members of the group (Roy, 2011).

3. **Non-Government Organizations (NGOs)**
A non-governmental organization (NGO) is a legally constituted organization created by private persons or organizations without participation or representation of any government. The term originated from the...
United Nations, and is usually used to refer to organizations that are not conventional for-profit business. NGOs can be organized on a local, national or international level (www.uiia.org).

Non-Governmental Organization (NGO) is a non-profit social service voluntary organization of community, persons, volunteers, civilians and citizens. NGO is registered at Government registering authorities but it is managed, operated and worked by its members and associated persons under and as per the rules, regulations and laws of the Government of that country but independently from government control. The NGO is not a part and directly controlled and monitored by the Government but works according to the policies of the Government more specifically for development and welfare of society, areas and communities as Government use to work.

**Objectives of NGOs**
- To promote information collaborations and constructive communication between NGOs, to develop effective partnership with each other.
- Networking for the access, sharing and dissemination of information collaboration and partnerships between the NGOs themselves and with other organizations.
- Networking to strengthen community organizations by boosting knowledge base and the ability to share information and experiences with strategic allies and other partners in relevant field.
- Capacity building of grassroots level NGOs, social workers through free online resources and information on a single platform.
- To serve non-profit organizations, charities, grassroots and community groups, educational and research institutions.

4. **Micro Finance Institutions (MFIs)**
Micro Finance Institutions (MFIs) are the organizations or associations of individuals that provide financial services to the poor. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. In India, there is a wide range of such organizations with diverse legal forms, varying significantly in size, outreach, mission and credit delivery methodologies.

**LEGAL FORMS OF MFIS**
The MFIs are an extremely heterogeneous group registered as Non-Banking Financial Companies (NBFCs), Co-operative societies, Section-25 companies, Societies and Trusts. All such institutions are operating in microfinance sector constitute MFIs and together they account for about 42 percent of the microfinance sector in terms of loan portfolio. On the basis of their legal forms, the MFIs in India can be broadly subdivided into three categories: Non-profit making, Mutual benefit making and profit making MFIs. The MFI channel is dominated by NBFCs which cover more than 80 percent of the total loan portfolio through the MFI channel (Nasir, 2013).

**CONCLUSION**
The leading cause of the failure of formal banking institutions in India while lending to the rural poor is the absence of proof of recognized employment or collateral that can be offered by the poor while applying for loans. The high risk and transaction costs of small loan savings deposits create difficulty for the banks as well. This leaves the poor with no alternative but to borrow money from local moneylenders at high-interest rates.

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