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Micro Finance-In India worked as a great mantra for Rural Finance

Sarabjeet kaur
(Assistant Professor)
G.G.N Khalsa College

Abstract:-*In developing economies and particularly in rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. This is often the case when people need the services money can provide but do not have dispensable funds required for those services, forcing them to revert to other means of acquiring them.*

Lifecycle Needs: such as weddings, funerals, childbirth, education, homebuilding, widowhood and old age.

- *Personal Emergencies*: such as sickness, injury, unemployment, theft, harassment or death.
- *Disasters*: such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings.
- *Investment Opportunities*: expanding a business, buying land or equipment, improving housing, securing a job (which often requires paying a large bribe), etc.

So it's the provision of micro finance which has started in india few years back had help the poor people to solve their financial problem so we can call micro finance as a boon for the rural area people

Meaning of Micro Finance

Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group

In some regions, for example Southern Africa, microfinance is used to describe the supply of financial services to low-income employees, which is closer to the retail finance model prevalent in mainstream banking.

For some, microfinance is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." Many of those who promote microfinance generally believe that such access will help poor people out of poverty, including participants in the Microcredit Summit Campaign. For others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses

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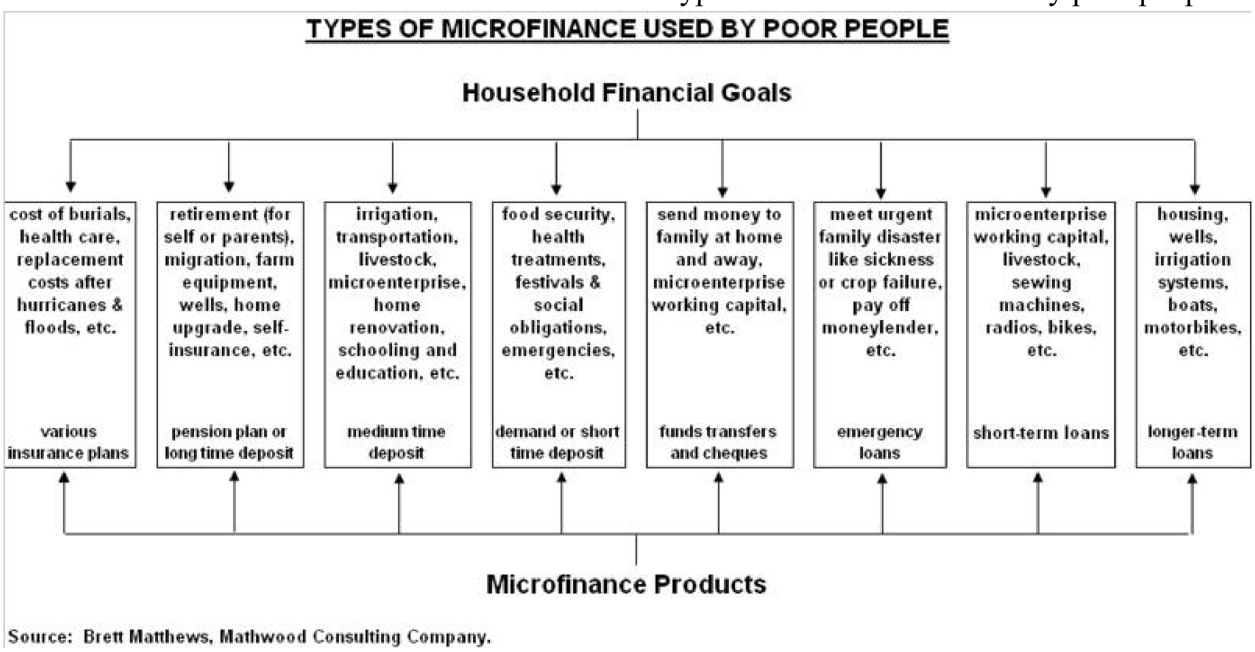
Micro Finance used by Poor People

People find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country but typically include livestock, grains, jewelry and precious metals., The 1980s demonstrated that "microfinance could provide large-scale outreach profitably," and in the 1990s, "microfinance began to develop as an industry" In the 2000s, the microfinance industry's objective is to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty. While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand. Various types of micro finance used by poor people



Microfinance standards and principles

A group of Indian women have assembled to make bamboo products that they intend to resell. Poor people borrow from informal moneylenders and save with informal collectors. They receive loans and grants from charities. They buy insurance from state-owned companies. They receive funds transfers through formal or informal remittance networks. It is not easy to distinguish microfinance from similar activities. It could be claimed that a government that orders state banks to open deposit accounts for poor consumers, or a moneylender that engages in usury, or a charity that runs a heifer pool are engaged in microfinance. Ensuring financial services to

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poor people is best done by expanding the number of financial institutions available to them, as well as by strengthening the capacity of those institutions. In recent years there has also been increasing emphasis on expanding the diversity of institutions, since different institutions serve different needs.

Some principles that summarize a century and a half of development practice were encapsulated in 2004 by CGAP and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004

1. Poor people need not just loans but also savings, insurance and money transfer services.
2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
3. "Microfinance can pay for itself." Subsidies from donors and government are scarce and uncertain and so, to reach large numbers of poor people, microfinance must pay for itself.
4. Microfinance means building permanent local institutions.
5. Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.
6. "The job of government is to enable financial services, not to provide them.
7. "Donor funds should complement private capital, not compete with it.
8. "The key bottleneck is the shortage of strong institutions and managers." Donors should focus on capacity building.
9. Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
10. Microfinance institutions should measure and disclose their performance—both financially and socially.

Microfinance is considered a tool for socio-economic development, and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan, should be recipients of charity. Others are best served by financial institutions

Micro Finance on the Indian Subcontinent

Loans to poor people by banks have many limitations including lack of security and high operating costs. As a result, microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality.

Muhammad Yunus, a Nobel Prize winner, introduced the concept of Microfinance in Bangladesh in the form of the "Grameen Bank". The National Bank for Agriculture and Rural Development (NABARD) took this idea and started the concept of microfinance in India. Under this mechanism, there exists a link between SHGs (Self-help groups), NGOs and banks. SHGs are formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations are they entitled to seek credit from the banks. There is an involvement from the concerned NGO before and even after the SHG-Bank linkage. The SHG-Bank linkage programme, which has been in place since 1992 in India, has provided about 22.4 lakh for SHG finance by 2006.It involves commercial banks, regional rural banks (RRBs) and cooperative banks in its operations.

Microfinance is defined as, financial services such as savings accounts, 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.

In this context the **Main Features** of microfinance are:

- Loan given without security
- Loans to those people who live below the poverty line
- Members of SHGs may benefit from micro finance
- Maximum limit of loan under micro finance Rs25,000/-
- Terms and conditions offered to poor people are decided by NGOs
- Microfinance is different from Microcredit- under the later, small loans are given to the borrower but under microfinance alongside many other financial services including savings accounts and insurance. Therefore microfinance has a wider concept than microcredit.

In June 2014, CRISIL released its latest report on the Indian Microfinance Sector titled "India's 25 leading MFI's". This list is the most comprehensive and up to date overview of the microfinance sector in India and the different microfinance institutions operating in the sub-continent.

MICROFINANCE MODELS IN INDIA :-

In India, the beginning of microfinance movement could be traced to Self Help Group (SHG) – Bank Linkage Programme (SBLP) started as a pilot project in 1992 by NABARD. This programme proved to be very successful and has also developed as the most popular model of microfinance in India. r

In India, the institutions which provides microfinance services includes:-NABARD Small Industries Development Bank of India <SIDBI), RashtriyaMahilaKosh, Commercial Banks, Regional Rural Banks, Co. Operative Banks and Non Banking Financial Companies (NBFCs).

Microfinance services are provided mainly by two models: - Self Help Group - Bank Linkage Programme (SBLP) Model and Micro-Finance Institutions Model (MFI). These both together have about 7 crore clients.

1. SHG - Bank Linkage Programme (SBLP)

A Self Help Group (SHG) is a small group of 10 to 20 persons of rural poor who come together to mutually contribute to common fund for meeting their emergency needs. SHG - Bank Linkage Programme was introduced by NABARD in 1992. Under this programme three different models have emerged:-

a) Model I: - SHGs promoted, guided and financed by banks.

b) Model II: - SHGs promoted by NGOs / government agencies and financed by banks

c) Model III: - SHGs promoted by NGOs and financed by banks under

NGOs / formal agencies as financial intermediaries.

2. Micro Finance Institutions (MFIs)

MFIs include NGOs, trusts, social and economic entrepreneurs, these lend small, sized loans to individuals or SHGs. They also provide other services like capacity building, training, marketing of products etc.

MFIs operate under following models:-

a) Bank Partnership Model

i. _MFI as Agent:-

In this model, the MFI acts as an agent and it take Care of all relationships with borrower from first contact to final repayment.

ii. MFI as Holder of Loans:-

Here MFI holds the individual loans on its books for a while, before securitizing them and selling them to bank.

b) Banking Facilitators:-

Banking facilitators / correspondents are intermediaries who carry out banking functions in villages or areas where it is not possible to open a branch. In January, 2006, RBI permitted banks to use services of NGOs, MFIs and other civil society organizations to act as intermediaries in providing financial and banking services to poor.

Importance of micro finance in India

Microfinance institutions are those which provide credit and other financial services and products of very small amounts to poor in rural, semi-urban and urban areas for enabling them to raise their income and improve their standard of living.

1. **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.

2. **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.

3. **Women Empowerment:-**

Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.

4. **Economic Growth:-**

Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.

5. **Mobilisation Of Savings:-**

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Microfinance develops saving habits among people. Now poor people with meagre income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members. Thus microfinance helps in mobilisation of savings.

6. **Development Of Skills**

Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.

7. **Mutual Help And Cooperation**

Microfinance promotes mutual help and cooperation among members. The collective effort of group promotes economic interest and helps in achieving socio-economic transition.

8. **Social Welfare**

With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society.

Microfinance Community, Solution Exchange India launched in 2006

Microfinance Community of Practice was launched in **October 2006.** The community is facilitated by **United Nations Development Programme (UNDP) and having** around **4000 members** from banks, donor agencies, and community based organizations, civil society institutions, microfinance Institutions (MFIs), Associations and networks of Microfinance.

Microfinance community works as a powerful instrument of knowledge sharing to develop individual and organizational capacities and strengthen policy environment to reduce poverty through microfinance initiatives and innovations leading to enhance financial inclusion.

Till date, more than **250 knowledge products** including consolidated replies, updates, reports of roundtables and workshops, Action group reports, Ready Reckoner, Synthesis documents are produced and disseminated by Microfinance community.

Microfinance Community undertakes eight types of activities and services - Virtual

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Knowledge Sharing Services; Regular Information Services; Knowledge to Practice Services (Virtual and Non Virtual Activities); Research Based Activities; Publication Services; Key Information / Resource Services; Face to Face Events; and Networking Services.

What is Solution Exchange?

Launched in 2005, Solution Exchange India (SE) is an online platform that facilitates knowledge sharing and learning amongst people, practitioners and communities dedicated to addressing development challenges in India. Run by the United Nations in India, online groups, called CoP, the platform enables members of academia, non-governmental organizations, grassroots practitioners, researchers and the government functionaries to share experiences and best practices, build partnerships, learn about the latest technologies that can help advance change and brainstorm with peers towards solutions that can improve the lives of the poorest and most marginalized.

Till date, more than **250 knowledge products** including consolidated replies, updates, reports of roundtables and workshops, Action group reports, Ready Reckoner, Synthesis documents are produced and disseminated by Microfinance community.

Microfinance Community undertakes eight types of activities and services - Virtual Knowledge Sharing Services; Regular Information Services; Knowledge to Practice Services (Virtual and Non Virtual Activities); Research Based Activities; Publication Services; Key Information

Round table on State of the Sector Report 2013 – Microfinance(19 august 2014)

A roundtable to discuss the *State of the Sector Report (SOS) report– Microfinance*, a report that covers not only the status of microfinance in India but also the issues, innovations, models and practices involved in the sector, was organized by the Microfinance Community of the Solution Exchange, United Nations.

Work held by micro finance agencies as per 2013 report

1. Poverty reduction
2. Democratic governance
3. Crisis prevention and recovery
4. Environment and energy
5. Women empowerment and inclusions
6. Human development

Millennium Development goals for micro finance projects

1. Eradicate extreme hunger and poverty
2. Achieve universal primary education
3. Promote gender equality and women empowerment
4. Reduce child morality
5. Develop a global partnership for development

Microfinance in India: the Roller Coaster

Asia has been leading the global exposure to microfinance: it is estimated that in 2010, 75% of the world's microfinance borrowers (around 74 million borrowers) were based in Asia (Microfinance Information Exchange, 2012). Seven out of every 10 of such Borrowers live in India (32 million) or Bangladesh (22 million). Furthermore, over The past decade India has become the most dynamic country for microfinance. While The number of borrowers in Bangladesh remained broadly stable in the 2000s, after An earlier period of growth in the 1990s, in India the number of borrowers increased 5-fold in just six years until 2010. In 2011, there was an estimated $4.3 billion given Out as loans to around 26.4 million borrowers in India, most of whom (nearly 90%) Were concentrated in just two states: Andhra Pradesh and Tamil Nadu.

Microfinance in India, as elsewhere, originally began as part of a developmental and Poverty-reduction project, led by NGOs who thought this would be an effective way of Allowing the poor to lift themselves out of poverty by their own efforts. Many NGOs Began the process of group lending based on self-help groups (SHGs) and the linkage With commercial banks (whereby banks were allowed to lend to groups with a proven Track record of repayment) further enlarged its scope. SHGs and their federations Became the intermediaries between individual clients (who were mostly women) and The commercial banking system through the SHG–Bank Linkage Program me (SBLP), Described below.

The basic methodology being used in commercial microfinance in India was broadly Along the lines innovated by Grameen Bank and later adapted by several players. This Involved three steps: (i) identifying potential customers, typically on the basis of some Measure of poverty, which also ensured significant homogeneity among customers; (ii) Organizing them into groups (SHGs) that effectively dealt with the problems of information Asymmetry described earlier; and (iii) offering standardised products based on Standardized operating systems, with strict enforcement of discipline that ensured that The exceptions were dealt with severely.

There were some differences from the Grameen model, particularly in the role of The SHGs. An SHG has 10–20 members and each member saves a certain amount Every month; the SHG lends the collective savings on a monthly basis to its members Sequentially on terms decided by the group. Further:

In addition to group-generated funds, the group may also borrow from outside, either from the
Commercial bank with which it maintains a group account or from the NGO sponsoring it, in
Order to supplement the group's loanable funds. As SHG members maintain their individual
Accounts with the SHG (and not with the sponsoring NGO), the SHG is the retailer in the
Indian case and performs most of the transaction functions, unlike in Bangladesh.

Conclusion

In the end we want to conclude that in India micro finance is the way to strive for the timely availability of finance services for the poor on fair terms and with dignity to help and enhance their livelihood. In India the population is 1.21 billion and poverty rate is 37.2% As we have look towards per capita income that is also low in India about ($1,330) and human development index is vulnerable that is 0.547 so all this condition of Indian economy pointed towards the need of micro finance at very large scale to eradicate poverty to develop rural area to improve human index and to provide happy life's to the people of India living in rural India.