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Understanding Microfinance Is Important To India's Economy

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ABSTRACT

The purpose of this article is to analyze the role that microfinance (MF) plays in furthering India's economic development and environmental sustainability by filling the gaps that are left by traditional banking services. It presents a comprehensive analysis of the evolution of microfinance from microcredit to a broader idea of financial inclusion. The focus of this analysis is on the ways in which various models within the Indian microfinance sector cater to underserved populations, such as individuals, small businesses, and sole owners. The purpose of this study is to assess the influence that microfinance has had on the Indian economy, with a particular focus on the ways in which it has helped alleviate poverty, empowered individuals financially, and created new business prospects. Furthermore, it investigates the many points of view regarding the efficacy of MF as well as the potential hazards that are linked with its implementation, providing insights into ways that can be utilized to effectively mitigate these risks. In this research, a fresh viewpoint on the benefits and limitations of microfinance in India is presented. This is accomplished by analyzing microfinance models that have received less attention in the Indian context and evaluating how well they work in terms of fulfilling goals such as financial empowerment and the decrease of poverty.

Keywords: Microfinance, SFG, MFI, Indian Economy

INTRODUCTION

Microfinance is seeing rapid growth in India and is driving fierce rivalry among the major players in the industry. As of March 2009, microfinance institutions have increased their reach to 50 million households and around 38 million borrowers. These organizations are structured according to three models: Self-Help Groups (SHG), Grameen model/Joint liability groups, and Individual banking groups like cooperatives. As of March 2009, the combined efforts of SHG bank linkage and MFIs had distributed a total of US$3.9 billion to individuals living in poverty. The lack of robust institutions offering adequate financial services hinders access for most impoverished individuals. Robust institutions must set fees at a level that is sufficient to support their expenses. Cost recovery is not a primary objective. Instead, it is the only method to achieve a large scale and significant influence that is beyond the restricted limits that contributors may financially support. Microfinance is the practise of providing credit and savings accounts to low-income people. Sustainable development is being fueled by a surge in microfinancing in India. Microfinance is widely recognized as a vital resource for helping the poor improve their standard of living and escape poverty. The same logic is used to the idea that expanding access to financial services will boost a nation's capacity for long-term growth. Dr. Montserrat West Bengal's invention, which is now known as the Garmin Model, has raised awareness in several countries, particularly India, about the potential for using it to combat poverty. The microfinance industry is undergoing huge developments and claims to be a rising area, with a focus on gaining ground in the public's eyes with regards to financial inclusion. In the emerging funding context, one notable inconsistency of crowdfunding in contrast to traditional venture capital settings is that women have an increased likelihood of obtaining funding (1). The existing body of literature on family business studies has expanded considerably (2). Government regulation impacts deeply on the innovation process. Regulatory frameworks influence firms' innovativeness (3). Informal finance is a crucial financing method for small and micro enterprises (SMEs) in most developing countries (4). Traditionally, informal firms have been perceived to be unproductive, lacking skills, and static by necessity, while low institutional quality has been shown to increase their prevalence (5).

The objective of this study is followed as: We can now observe that the basic aims that Microfinance Institutions that operate in India strive for are as follows:

• Development Bank of Asia, bank accounts, savings accounts, loans, payments, services, banking, business accessories, marketing plans, money transfers, and insurance are all part of the financial inclusion movement, which aims to help low-income households and small businesses.

• To promote social and economic development among poor parts of the economy.
• Boost the effectiveness of self-help groups and make better use of them as a vehicle for economic growth.
• Rural women, families with low incomes, and small companies throughout Asia and the Pacific may benefit from microfinance since it helps level the playing field financially for them

Role and Significance of Microfinance in India

In the early 1980s, the banking rules, processes, and systems in place were inadequate to fulfill the needs of the impoverished population. Impoverished individuals often turn to the informal sector for borrowing. NABARD suggested implementing alternative policies, structures, and processes to protect the impoverished population from the grip of usurious moneylenders. Microfinance was implemented in the banking sector. Microfinance refers to the offering of a diverse array of financial services, including deposits, loans, payment services, money transfers, and insurance, to individuals and families with limited financial resources and their small-scale business (6). Micro-finance contributes to social and economic development of the nation in the following ways:

- Individuals with low socioeconomic status are unable to use banking services because of their limited financial resources and their lack of proficiency in navigating banking protocols and paperwork. Microfinance enables the provision of various financial services, including deposits, loans, payment services, money transfers, and insurance, to impoverished individuals, low-income families, and their microenterprises.
- Microfinance institutions, in collaboration with partner non-governmental organizations, foster the cultivation of savings behavior among individuals living in poverty. The funds created via savings and microcredit received from banks are used to offer loans and advances to the members of the Self-Help Groups (SHGs). Microfinance institutions facilitate the collection of savings and allocate them towards the betterment of its members.
- Loans from traditional banks need collateral or a counter guarantee, which impoverished individuals are unable to provide, resulting in their inability to get a loan. Once again, the combination of high interest rates and the complex procedural and paperwork requirements serve as obstacles for those with low income who are seeking loans from banks. Microfinance eliminates these barriers and offers financial services to the rural and impoverished people under favorable conditions.
- Microfinance enables poor individuals to access affordable loans, enabling them to start small-scale companies, expand their enterprises, escape poverty, and achieve financial autonomy and self-sufficiency. It facilitates the establishment of sustainable financial autonomy among the poor segments of society, hence fostering self-reliance among them.
- Micro-finance is facilitated by the involvement of Self-Help Groups (SHGs) as intermediaries. Over half of the Self-Help Groups (SHGs) are comprised of women. Currently, they possess enhanced availability of financial and economic resources. This is a significant advancement in ensuring enhanced safety for women. Microfinance provides economic and social empowerment to impoverished women.

Key Implication for Policymakers for Strengthening the Social and Economic Impact of Microfinance

MFI plays an increasingly critical role in tackling crucial political and economic objectives such as poverty alleviation and improving opportunities for marginalized and economically disadvantage groups. MFIs have a dual mandate:

i. Ensure financial stability and
ii. Attain mission objectives.

Lawmakers should understand the dual nature of MFI results, as discussed by Adnan et al. in their 2021 study. Implementing certain procedures is necessary to facilitate the achievement of goals by microfinance institutions (MFIs). Furthermore, governments that adhere to Know Your Customer (KYC) laws might provide challenges for individuals and families with lesser incomes, particularly those residing in developing nations (7). A proposal presented by (8) advocated for a hierarchical strategy to assist poor clients in overcoming these obstacles by first enhancing the accessibility and simplicity of the banking procedure. To accomplish this, it is imperative to promptly establish financial accounts for those living in poverty with little difficulty, and gradually enhance banking regulations as their utilization of financial services expands. MFIs may get advantages by implementing a microfinance strategy and adhering to local legislation. Although there is a higher probability of engaging with impoverished communities, particularly in rural regions, this strategy may not be universally applicable (9). The lack of stringent restrictions in the microfinance sector in Zambia may be attributed to the authorities' limited understanding of the MFI business model at the time the laws were formulated.

LITERATURE REVIEW

(10). Garmin bank groups and self-help groups: advantages and disadvantages of microfinance in India" is the subject of his article. Acanthi in She achieved exactly that in the research that she published under the title "Financing Micro Finance: An Analysis of the HDFC Bank Partnership Model." In this article, a comparison of three different microfinancing schemes is presented. The microfinance institution (MFI) as a servicer partnership model, the self-help group bank connection model, and the microfinance institution (MFI) financial intermediation model.

(11) The report "Micro Finance in India: Trends, Challenges, and Opportunities" was edited by me. Content presented during the India Micro finance Forum2009 held in Hyderabad, Vellore in 2008 was gathered into a report covering a wide range of topics and topics. The primary motivation for writing the research was to give microfinance professionals tools to expand and improve their businesses and better assist the unbanked and the underprivileged.

(12) The authors of a paper titled "Group Lending vs. Individual Lending When Strategic Default Is Present" examined the two types of lending in the presence of strategic default. To accomplish this, secondary sources of information were considered.

In "Microfinance Institutions in Bangladesh: Achievements and Challenges," 2009 research by (13), the impact of microfinance is examined in Bangladesh, a nation where a sizeable portion of the population lives below the poverty line. Because Bangladesh's success in microfinance has acted as a model for other poor countries, this research is especially pertinent.

Initiatives such as the Business Correspondent (BC) model provide an alternative strategy for financial inclusion, in addition to microfinance. This model, which was investigated in a study by (14), provides financial services to the unbanked population by using information technology and a network of agents. This strategy can be especially helpful for reaching people who live in rural locations or are difficult for regular banking institutions to serve. This study created a methodology to evaluate the BC model's effectiveness considering elements including technological efficiency, customer satisfaction, and economic impact. This more comprehensive viewpoint on financial inclusion tactics can be helpful when analyzing the variety of methods required to reach the unbanked populace.

(15) examined the efficiency of microfinance in various developing regions of the world and conducted an analysis of its general operation, strengths and weaknesses, potential threats and possibilities in a report titled "Micro finance throughout the world regional SWOT Analysis."

Research such as that conducted by (16) demonstrate the increasing acknowledgement of microfinance as a potent instrument for advancing women's entrepreneurship in India. Their study highlights the ways in which microfinance enables women entrepreneurs to succeed both financially and socially, which has a knock-on effect on the general public's health and educational standards. This is consistent with the knowledge that female entrepreneurs are essential to promoting economic growth and enhancing the quality of life for their families and communities."

(17) investigated the effect of microfinance on Sri Lankan women who are entrepreneurs. The Mihinthale Pradeshiya Sabha study discovered a positive correlation between female entrepreneur empowerment and MFI loan availability, repayment policies, and non-financial services.

PROGRESS IN INDIA'S MICROFINANCE INSTITUTIONS

Existing banking rules, processes, and systems were not adapted to the needs of the poor in the early 1980s. To secure loans, low-income persons often turn to the shadow economy. To protect the poor from predatory lenders, NABARD suggested implementing new policies, protocols, and processes. As a result, the banking industry adopted microfinancing. Microfinance refers to the practise of making a variety of banking and financial products and services available to low-income individuals and small businesses. Microfinance is "financial services such as savings, insurance, fund, credit etc. supplied to poor and low-income clients in order to help them raise income, hence improving their standard of living," according to the Oxford Dictionaries Online. Microfinance is seen as a tool for economic and social development in low-income nations like India. Its predicted contribution to poverty reduction and economic growth is enormous. Dr. Montserrat West Bengal of India received the Microfinance Prize for her work in establishing the Garmin Bank in India. There is a distinction to be made between micro credit and micro financing. While "micro credit" refers to tiny loans of a few hundred dollars or less made by banks or other formal financial institutions, "micro finance" encompasses a wider range of financial products and services.

EXPOSURE TO MICRONEUTICALS IN INDIA

It plays a crucial role in rural banking.
It's tiny loan business.
It mostly serves low-income families.

Among all poverty alleviation strategies, this is one of the most successful and reliably effective ones.

The poor are excluded from the financial system because of their low income and inability to keep up with banking processes and papers. Micro-finance allows low-income people and their small businesses to gain access to a wide range of financial services, such as savings accounts, loans, payment systems, money transfers, and insurance.

Microfinance institutions in India teach low-income Indians to save through non-governmental organisations. Self-Help Group members can apply for loans and advances using the funds amassed via bank savings accounts and microloans (SHGs). Therefore, microfinance institutions facilitate the immobilisation of savings and the use of those assets for the benefit of the members of the institution.

Getting a loan through the standard banking system is impossible for the impoverished because they lack the collateral or counter guarantee required. Once again, the high interest rates, lengthy application processes, and extensive paperwork required by banks prevent the poor from gaining access to the financial services they need to get by. All these problems are solved by microfinancing, which offers cheap loans to the impoverished and rural areas.

Because of micro-finance, low-income people can obtain loans at affordable interest rates, allowing them to launch and expand small companies, ultimately lifting themselves and their families out of poverty. It encourages self-sufficiency by giving the impoverished a chance to build a sustainable income and escape poverty.

Financial aid for low-income individuals is made available through SHGs, which are organised locally (SHGs). Female-only SHGs make up more than half of all SHGs. The previously limited financial and economic resources are now available to them in bigger quantities. It's a positive development that should lead to improved safety for females. As a result, micro-finance helps low-income women financially and socially.

NUMEROUS MODELS OF MICRO FINANCE IN INDIA

1) Garmin Model of Micro finance

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2) Joint Accountability Group Model of Micro finance

There is anything from four to ten people in each of these groupings. Individual members of the group do not need to have any sort of savings to take out a bank loan with the backing of the group as collateral. The members have agreed to be jointly responsible for the repayment of any loans taken out by the group. This methodology is used by a wide variety of microfinance institutions in India. In this framework, empowerment gains are slow at best. This model is being adopted by a growing number of countries.

3) Individual Loaning Model of Micro finance

One does not need to be part of a group to apply for a loan on one's own. To ensure that borrowers make their loan payments on time, financial institutions must keep a constant eye on their credit reports. Larger, metropolitan, production-based businesses see the most success with it. Several third-world nations, including Egypt, Indonesia, Senegal, and India, have adopted this concept.

4) The Group Approach of Micro finance

Banks and other financial organisations keep an eye on the whole group approach to financial processing. Collective decisions are made about matters like saving, lending, and repaying. There could be anything from 10 to 20 people involved, all of whom will contribute to a communal savings fund. Financial firms make the loans out to the organisation. The financial institutions establish a payback schedule with the organisation, and their field personnel make regular visits to check in on progress. This technique is widely adopted in India and is referred to as the Self-Help Group Bank Linkage Programme.

5) Community Banking Model of Micro finance

Banks and other financial organisations keep an eye on the whole group approach to financial processing. Collective decisions are made about matters like saving, lending, and repaying. There could be anything from 10 to 20 people involved, all of whom will contribute to a communal savings fund. Financial firms make the loans out to the organisation. The financial institutions establish a payback schedule with the organisation, and their field personnel make regular visits to check in on progress. This technique is widely adopted in India and is referred to as the Self-Help Group Bank Linkage Programme.

6) Self-help group model of Micro finance

The SHGs range in size from 10-20 people and are casual and cohesive. Village-based bank staff, non-governmental organisation (NGO) representatives, and others establish these coalitions. The members of the group choose a name for it and then elect a leader, a cashier, and a secretary to manage the organization's finances and other administrative tasks related to the collection. Regularly, the club members put money down in their own voluntary savings. The members of the group come to an agreement on how much money will be put into the savings account. Borrowing from this fund serves as a low-interest, revolving internal loan.

7) Guideline of micro finance industry in India

Due to over-competence, the microfinance business has been hit hard by the recent crisis in Gujarat Pradesh in 2010. Thus, the Reserve Bank of India was inspired to establish the Male gam Committee. Microfinance loan repayments plummeted after the adoption of the Gujarat Pradesh Micro financing Ordinance in 2010. Financial losses were incurred by microfinance institutions due to low payback rates. The Reserve Bank of India formed a special committee, the Amalgam Committee, to find a solution. The committee investigated the problems with the interest rates and collection procedures. Regulations proposed by the Amalgam Committee in 2011 were adopted by the Reserve Bank of India. The Micro financing Institutions (Development and Regulation) Bill 2011, which establishes a framework for regulating MFIs in India, has been revised and written with the input of industry experts.

ANALYSIS OF THE STUDY

Table 1: Progress under SHG Bank linkage Programme Source: NABARD; the numbers included in parantheses represent a proportion of the total

Particulars	2017-18	2018-2019	2020-2021	2021-2022

	No of SHG (in Lakhs)	Amount (in `Crores)	No of SHG (in Lakhs)	Amount (in `Crores)	No of SHG (in Lakhs)	Amount (in `Crores)	No of SHG (in Lakhs)	Amount (in `Crores)
Saving of SHG with Banks	69.53	6198.7	74.62 (7.3%)	7016.3 (13.2%)	79.60 (6.7%)	6551.41 (-6.7%)	73.18 (-8.1%)	8217.25 (25.4%)
Loan Disbursed by banks	15.86	14453.3	11.96 (-24.6%)	14547.7 (0.01%)	11.48 (-4%)	16534.77 (13.7%)	12.20 (6.3%)	20585.36 (24.5%)
Bank loan outstanding with the Banks	48.51 -	28038.3 -	47.87 (-1.3%)	31221.17 (11.4%)	43.54 (-9.0%)	36340.00 (16.4%)	44.51 (2.2%)	39375.30 (8.4%)

Savings of SHGs with the Banks

The following table illustrates the savings of SHGs with banks. As we can see from the table, in the year 2017-2018, 69.53 lakh SHGs had a savings account with the banking sector and had saved a total of 6198.7 crore. In addition, there were 79.60 lakh SHGs that had savings accounts with a total of 6551.41 in 2018-19, which is an increase from the 74.62 lakh SHGs that had savings accounts with a total of 7016.3 crores in the previous year. When compared to the previous year, it seems that there has been a decrease in the total amount of savings balances held at the bank to the extent of (-6.7%). In the 2019–2020 fiscal year, there were only 73.18 lakh savings groups affiliated to banks, compared to 79.60 lakh in the previous fiscal year. This represents a reduction in the number of SHGs that were linked to banks. During the year 2021-2022, the number of SHGs saw a fall to the level of (8.1%), even though the savings that were harnessed by SHGs increased by 25.4%. This is the first time that this has occurred since the SHG-Bank linkage programme was introduced. The reduction in savings balances held by banks is also attributable, at least in part, to the growing understanding that exists at the level of SHGs about the benefits of using savings for the purpose of internal loaning. During the 2017-2018 fiscal year, financial institutions provided financing for 15.86 lakh SHGs in the form of bank loans totaling 14,453.30 crore. However, in the 2018-2019 fiscal year, financial institutions provided a new loan of 14547.7 crore to 11.96 SHGs. In comparison to the previous year, it has been shown that the total number of SHG has decreased by over 25 percent. In addition, in the fiscal year 2021-2022, there was an increase of 6.3% in the number of SHGs that obtained new loans from banks, and there was an increase of 24.5% in the quantity of fresh loans distributed in comparison to the previous year.

Amount Remaining on the Loans with the Bank

In the financial year 2017-2018, a total of 48.51 lakh SHGs had outstanding bank loans totaling 28,038.28 crore. In addition, the number of SHGs that had outstanding loans against them from banks decreased by 9% during the year 2018-2019, even though the total amount of loans outstanding climbed to '36340 crore, representing a 16.4% rise over the previous year. The increase in the amount of money that cooperatives owe to banks during the fiscal year 2021-2022 was 8.4%, which is over four times as much as the rise in the number of cooperatives that owed money to banks, which was just 2.2%. As a result, loan balances are to blame for the rise in non-performing assets associated with SHG loans held by banks.

DISCUSSION

This study emphasizes how crucial it is to develop microfinance in India's rural and semi-urban areas to increase its effectiveness and reach. The trends show that although the number of SHGs associated with banks has varied, the overall amount of savings and loans managed has increased significantly. Improved management and support systems within the microfinance sector are clearly needed, as evidenced by the decline in the number of SHGs connected to banks and the increase in the amount of loans due.

It is viewed as a good development when information and communication technology (ICT) are incorporated into microfinance procedures. It is possible to increase the efficiency and accessibility of microfinance, even in remote places, by utilizing cutting edge computing and communication technologies. This might make the loan process faster and more affordable, which would benefit the local and national economies. The integration of ICT principles with microfinance components has the capacity to yield substantial benefits for the rural economy and foster economic growth in general.

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Author contribution
Dr. Pradeep Munda: Original Draft Writing, Conceptualization, Methodology, and Supervision. Dr. Sunil Kumar Pandey: Formal analysis, writing, editing, and data curation. Dr. Vijay Agrawal: Research, Materials, Approval. Each author made an equal contribution to the idea generation and manuscript review.

Ethics approval
Not Applicable.

Competing Interest
The author declares that there is no competing interest.

Data Availability
Data will be made available on request.

Abbreviation
Not Applicable.

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