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TIRUPPATTUR – 630 211.

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ROLE OF MICRO FINANCE IN PROMOTING FINANCIAL INCLUSION IN INDIA

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ABSTRACT:

Finance is extremely fundamental for each monetary movement. Without sufficient finance no action can be embraced. Finance is additionally needed by each segment of the general public. Be that as it may, from the start of the progress, just the financial requirements of the upper segment of the general public were cooked. Admittance to finance by poor people and more fragile gatherings is undeniably challenging. This is because of the different reasons like absence of banking offices for this segment, ignorance about the plans accessible for them, absence of a customary or considerable pay and so forth additionally, banks likewise give more significance to meet their financial targets. So they centeron bigger records. It isn't beneficial for banks to give little credits and make a benefit. Henceforth, the requirement for financial inclusion is felt by the Government of India, the approach producers and Reserve Bank of India. Recent developments in Micro Finance Industry are being playing a vital role to promote the Financial Inclusion.

Key Words: Micro Finance, Financial Inclusion, Development, Economy.

1. INTRODUCTION:

Microfinance empowers poor people and prohibited segment of individuals in the general public who don't have admittance to formal banking to assemble resources, variety vocation alternatives and increment pay, and diminish their weakness to monetary pressure. Microfinance covers an expansive scope of monetary administrations including advances, stores and instalment administrations and protection to poor people and low-pay families and their micro endeavours. Microfinance establishments have shown a huge commitment towards the poor in rustic, semi metropolitan or metropolitan regions for empowering them to raise their pay level and expectations for everyday comforts in different nations.

2. OBJECTIVES OF THE STUDY

The main objectives of the study are following:

1. To study the importance of Micro Finance and its impact on effective financial services.
2. To analyse the role and responsibilities of Micro Finance in rural development.

3. RESEARCH DESIGN

The study is entirely based on the secondary data. These data are collected through published sources like text books, journals, magazines and through the blogs and articles published in websites.

4. LIMITATIONS OF THE STUDY

- The study is limited to secondary data.

Time constraints while collecting the secondary data.

NEED FOR MICRO FINANCE INSTITUTIONS IN INDIA:

Micro finance bank is a foundation that expands little credit or micro finance, to candidate who ordinarily has a place with the most minimal group of society. Advances are stretched out to borrower to permit them to start a business, fix their homes and work on the overall day to day environment of their families and the local area. Microfinance is considered as a device for financial turn of events, and can be unmistakably separated from gifts.

With a tremendous section of the world's oppressed, India is probably going to have an enormous conceivable interest for microfinance. Hence, it's a good idea to think about the changing substance of microfinance for provincial advancement in India. Microfinance alludes offering extraordinarily little advances to extremely helpless families fully intent on connecting with them into useful exercises.

With regards to provincial turn of events, with the development of the credit framework, credit stream to poor people and particularly to helpless ladies, stayed close to the ground. Accordingly, National Bank for Agriculture and Rural Development (NABARD) was set up with the target of outlining fitting strategy for country credit, arrangement of specialized help upheld liquidity backing to banks, oversight of rustic credit establishments and other improvement drives. After a period, it was capable that the current financial approaches, frameworks and systems, and store and advance items were potentially not very much coordinated to meet the moment needs of poor people. On the off chance that an individual notices an establishment to be disagreeable or heartless to them, they wonder whether or not to advance toward it. Hence a necessity has been capable for elective approaches, frameworks and strategies, reserve funds and credit items, other coordinating with administrations, and new conveyance components, which would satisfy the prerequisites of the least fortunate, particularly of the women individuals from such families.

This has offered starting to an expanding accentuation on Microfinance for working on the admittance to credit for poor people. A huge number of NGOs have begun their own micro finance programs trying to foster individuals in their particular regions. Micro credit has turned into a significant apparatus of improvement. The most current progression in this space is investment funds and credit groups or Self Help Groups (SHGs) as they are known in

India, just as an assortment of specific Micro Finance Institutions (MFIs). To help and energize the exercises of these groups, huge institutional designs have arisen. A significant part of such help in India has come from non-benefit NGOs. These associations initially started the idea of Micro Finance and keep on pursuing the conveyance of Micro Finance projects in India particularly for rustic turn of events.

TYPES OF MICROFINANCE

Microfinance includes the following products:

Micro loans – Microfinance loans are significant as these are provided to borrowers with no collateral. The end result of microloans should be to have its recipients outgrow smaller loans and be ready for traditional bank loans.

Micro savings – Micro savings accounts allow entrepreneurs operate savings accounts with no minimum balance. These accounts help users inculcate financial discipline and develop an interest in saving for the future.

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

Microfinance Channels

Microfinance in India operates primarily through two channels:

- **SHG - Bank Linkage Programme (SBLP) -** This channel was initiated by NABARD in the year 1992. This model encourages financially backward women to come together to form groups of 10-15 members. They contribute their individual savings to the group at regular intervals. Loans are provided to members of the group from these contributions. SHGs are also offered bank loans at later stages, and these loans can be used for funding income generating activities.

This model has achieved a lot of success in the past and it has also gained a lot of popularity for contributing to the empowerment of women in the country. Once these self-sustaining groups reach stability, they function almost independently with minimal support from NABARD, SIDBI, and NGOs.

- **Microfinance Institutions (MFIs) -** These institutions have microfinance as their primary operation. These lend through the concept of Joint Liability Group (JLG), i.e., an informal group that consists of 5-10 members who seek loans either jointly or individually.

Role of Microfinance Institutions (MFIs)

Microfinance services are offered by the following sources:

- Formal institutions, i.e., cooperatives and rural banks
- Semiformal institutions, i.e., non-government organisations
- Informal sources, such as shopkeepers and small-scale lenders

Institutional microfinance encompasses the services provided by both formal and semiformal institutions.

A microfinance institution specialises in banking services for low-income individuals and groups. These institutions access financial resources from mainstream financial entities and provide support service to the poor. Microfinance institutions are hence, emerging as one of the most effective tools in reducing poverty in India.

While several MFIs are well-run with great historical records, others are operationally self-sufficient.

The different types of institutions offering microfinance in India are:

- Commercial banks
- Credit unions
- Non-governmental organisations (NGOs)
- Sectors of government banks
- Cooperatives

Microfinance institutions act as a supplement to the services offered by banks. Apart from offering micro credit, financial services such as insurance, savings, and remittance are provided. Non-financial services such as training, counselling, and supporting borrowers are offered in the most convenient manner as well.

GROSS LOAN PORTFOLIO AND GROWTH RATE OF MICRO FINANCE INDUSTRY IN INDIA

The overall microfinance industry's gross loan portfolio (GLP) surged by 11.9 per cent to Rs 2,59,377 crore as on March 31, 2021 from Rs 2,31,787 crore as on March 31, 2020, says a report. The growth was driven by an addition of 4 lakh borrowers during the pandemic-struck 12-month period ending March 2021, according to a report Micrometer, released by Microfinance Institutions Network (MFIN). MFIN is an industry association comprising 58 NBFC-MFIs and 39 associates including banks, small finance banks (SFBs) and NBFCs. As on March 31, 2021, the microfinance industry served 5.93 crore unique borrowers, through 10.83 crore loan accounts, the report said.

It said 13 banks hold the largest share of the portfolio in micro-credit with a total loan outstanding of Rs 1,13,271 crore, which is 43.67 per cent of total micro-credit universe. Non-banking financial companies-microfinance institutions (NBFC-MFIs) are the second largest provider of micro-credit with a loan amount outstanding of Rs 80,549 crore, accounting for 31.05 per cent to total industry portfolio, the report showed. Small finance banks (SFBs) have a total loan amount outstanding of Rs 41,170 crore with a total share of 15.87 per cent.

NBFCs account for another 8.36 per cent, and other MFIs account for 1.05 per cent of the total microfinance universe, it said. The report further showed that the gross loan portfolio of NBFC-MFIs increased by 11 per cent to Rs 81,475 crore as on March 31, 2021, compared to Rs 73,412 crore as on March 31, 2020. This GLP on NBFC-MFIs includes owned portfolio of Rs 68,894 crore and managed portfolio of Rs 12,581 crore. The association said its NBFC-MFI members disbursed Rs 57,891 crore of loans in fiscal 2020-21 through 1.70 crore accounts. Average loan amount disbursed per account during FY20-21 was Rs 35,726, an increase of around 20 per cent in comparison to last financial year. During FY2020-21, NBFC-MFIs received a total of Rs 40,797 crore in debt funding which is 9.2 per cent higher than FY2019-20. Total equity of the NBFC-MFIs grew by 15 per cent to Rs 18,663 crore as on March 31, 2021.

CONCLUSION

Micro-credit could indeed provide a lifeline for desperate borrowers, if it operated at a small scale and with subsidised interest rates. To some borrowers it could provide a crutch even at relatively high interest rates, saving them from the clutches of moneylenders. But given the huge increases in living costs and the reduced role of governments, especially with respect to healthcare and education, micro credit was never going to be able to stem the tide of poverty. Healthcare is perhaps the number one route to bankruptcy among the poor in many developing countries and education takes an ever increasing proportion of their income. Painting all the women in the world as heroic entrepreneurs doesn't actually make them so. They are heroic all right, given the struggle they lead against brutal poverty – but entrepreneurial ventures have always had a high mortality rate. And there aren't that many which can deliver the kind of returns one requires to be able to pay back interest rates in excess of 40%. Given that much of the loaned money is actually used for consumption, the chances of getting into debt are always high. Realising that poverty alleviation was an unsustainable and unachievable goal, the micro-credit industry shifted the goal posts."Financial inclusion" was the new aspiration, which in practice meant access to credit, insurance and other financial products. The term micro-credit became microfinance and poverty alleviation quietly moved out of the spotlight. The fact that most borrowers were using the loans for consumption rather than production was not taken as a failure to achieve the original goal either. Instead, this “consumption smoothing” was celebrated as another achievement.

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