

Role of Microfinance Institutions in Indian Economy Development

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Abstract—*Definition of MFIs:- Microfinance institution is like a bank it is a provider of credit however the size of the loans is smaller than those granted by traditional banks these smaller loans are known as microcredit the client off and microfinance institutions are often micro entrepreneurs in need of economy support to launch their business.*

Example: -Microenterprises includes, basket making, Sewing, Street vending and raising poultry.

INTRODUCTION:-

Indian Company Law 1936 defines Bank as “a banking company which receives deposits through a current account or any other forms and allows withdrawal through cheques or promissory notes” main difference between banks and other financial institutions is that the latter cannot accept deposits into saving and demand deposits account in a more aggregate sense the banking industry is most concerned with financial services sector in corporate investment insurance redistribution of risk and other financial activities.

History of MFIs in India: -

In India, the first initiative to introduce microfinance was the Self-Employed Women’s Association (SEWA) in Gujarat, which established SEWA Bank in 1974. Since then, this bank has been providing financial services to individuals who wish to grow their own businesses in rural areas. One successful initiative is Kudumbashree, the Kerala state’s Poverty Eradication Mission that was launched in 1998. This female-led community organization of Neighborhood Groups (NHGs) brings women from rural and urban areas together to fight for their rights and helps empower them. Through these NHGs, women work on a variety of issues like health, nutrition and agriculture. They can collect income and seek microcredit while working under this scheme. Such small-scale initiatives are promoting financial independence in underprivileged areas.

Why MFIs required?

There is a need to provide microfinance facilities to cater to India’s large rural population. The main objectives of microfinance in India should be promoting socio-economic development at the grassroots level through a community-based approach, empowering women and increasing the

household income. As with implementing any transformative initiative, running a microfinance program in rural India comes with some challenges:

Aims and objectives of MFIs: -

The objective of microfinance is like that of microcredit; its goal is to provide financial services to help encourage entrepreneurs in impoverished nations to act on their ideas and obtain the financial tools available to do so and to eventually become self-sustainable. A few more of its overarching goals include to promote economic development, decrease unemployment, and boost small businesses.

Additionally, some microfinance institutions provide financial and business education in order to best position their clients for starting up a small business or to act efficiently as an entrepreneur.

Types of Micro financing: -

- Village savings and credit association (VISACAs)
- Finance companies (FCs)
- Fiduciary financial institution (FFIs)

- 1) VISAKA: - These are community based micro finance institution owned and managed by its member to provide boot financial and Technical Support during their establishment to ensure sustainability its head office is located add Brusubi West Coast region headed by a manager.
- 2) FCs: -There are institutions owned by individuals who have subscribed for shares to form the company.
- 3) FFIs: -This is the highest category off microfinance institutions in the Gambia. recently SDF has been issued with a license in principle to operate as a if operate as a FFI.

Microfinance institution activities: *Provide loans for very low-income entrepreneurs where group members provide a guarantee for each other. Individual business loans, large loan size and more flexible terms help entrepreneur continue to grow their business.

- Agricultural loan; loan for rural clients purchase seeds fertilizer life stop and equipment's.
- *Insurance; credit disability and funeral insurance help reduce and financial stress of meeting major or unexpected expenses
- *Money transfer; FINCA clients has a safe and affordable way to receive and send money for business and personal purpose.
- *Energy loans the client can purchase or lease clean electricity system or produce for use at home or to improve a small business.
- Saving account; saving help clients build a cushion against hard time they can also serve as a nest for education medical care major life milestones old age business expansion and other long-term goals

What are the differences between banks and MFIs: - Microfinance institutions offer loans with little to no asset to the clients while in a bank one has to have collateral to receive a loan.

The main goal of microfinance is to alleviate poverty in the population through credit provision and carrying out financial training while banks focus more on profitability and growth.

Microfinance Loans are offered at lower interest rates and better repayment terms while bank loans are offered at comparatively higher interest rates.

Bankers are often characterized by heavy investment in technology infrastructure compared to microfinance institutions. Broadly speaking, micro-financial institutions are involved in capacity building, financial literacy, livelihood promotion, preventive health care, Education and training, water and sanitation etc.

Besides their core financial functions such as microcredits to the poor.

Sources of Microfinance: -

There are generally two kinds of sources:

- Formal Sources: microfinance banks, rural banks, NGOs, credit unions and micro loan organizations
- Informal Sources: **community-based saving**, loan groups and individuals

The different types of institutions that offer microfinance are:

- **Credit unions**
- **Non-governmental organizations**
- **Commercial banks**

Required qualifications for working in an MFI: -

In addition to interpersonal skills which are required for the proper functioning of the MFI and for managing client relationships, a microfinance professional must have a certain expertise and skills, such as:

- An awareness of legal aspects, laws and regulations of the country, including those related to banking and the (micro)financial sector
- A solid understanding of the MFI's financial and non-financial products and services for clients.

MICROFINANCE INSTITUTIONS IN INDIA: -

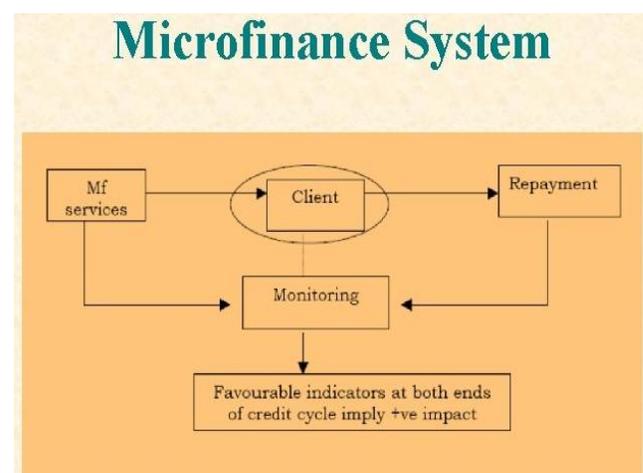
Microfinance Institutions in India Mainstream Institutions Alternative Institutions NABARD NGOs, which are mainly engaged in promoting SHGs. SIDBI NGOs, which are directly lending to borrowers. HDFC MFIs which are specifically organized as cooperatives. Commercial Banks MFIs, which are organized as non-banking finance Regional Rural Banks (RRBs) Co-operative societies companies. There is a chart showing the microfinance system which can make you understand very well the system of work microfinance institutions are doing.

Conclusion

Microfinance has been proved to be an important tool in the development process. Empowering the rural's poor woman educationally socio-economically and politically.

Impact of microfinance is appreciable in bringing confidence, courage, skill development and empowered among rural poor women.

Microfinance Institutions in India	
Mainstream Institutions	Alternative Institutions
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