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How Micro Finance Instruction works in India-A Review

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ABSTRACT
In the 1970s, when researchers looked for new ways to help the poor, particularly those in developing nations, microfinance emerged as one of the most powerful weapons for poverty reduction science. Microfinance may play a critical role in delivering financial services to the poor and low-income group in a country like India, where 70% of the population lives in rural areas and most of them rely on agricultural operations. In a developing country like India, microfinance is seen as a valuable tool for socioeconomic upliftment. As a result, microfinance has the potential to significantly improve the standard of living of the rural poor. This article looks at how microfinance organisations in India go about eradicating poverty and empowering the underprivileged, particularly women. It also aims to discover how microfinance services contribute to societal equality. It also aims to create a model of various microfinance services that can lead to women's empowerment, influencing women's decision-making power at home and encouraging women's mobility inside and outside their communities. The goal of this research is to learn how microfinance helps disadvantaged women increase their literacy, self-confidence, courage, skill development, and empowerment.
Keywords: Microfinance, MFIs, Poverty, Women Empowerment

I. INTRODUCTION

All financial products and services designed for persons who are unable to access standard banking channels are referred to as microfinance. Microfinance promotes social and banking inclusion by allowing socially vulnerable people to access productive loans, savings options, and other financial services.

History of microfinance Micro finance dates back to the early 1700s, when financial institutions began extending small loans to the rural poor with short repayment terms. Credit unions, which are the forerunners of microfinance institutions (MFIs), were founded in 1846 in Germany as cooperative credit organisations to assist local farmers in purchasing animals, seeds, and equipment. However, the credit union's expansion was confined to developed countries, leaving hundreds of millions of people worldwide without access to official financial services. Professor Muhammad Yunus visited the impoverished Bangladeshi town of Jobra in 1974 and lent twenty-seven dollars to forty-two basket weavers. Professor Yunus was so moved by his experience that he founded the Grameen Bank, one of the world's first microfinance institutions, in Bangladesh in 1983. The bank had two missions: (1) to empower the surrounding rural poor, particularly women, by providing credit; and (2) to ensure the bank's long-term viability. In 2006, the Nobel Peace Prize was awarded to the Grameen Bank and Professor Yunus for "their efforts to build economic and social development from bottom."

In India, the first initiative to introduce microfinance was the Self-Employed Women’s Association (SEWA) in Gujarat. As of may 2021, the Reserve Bank of India (RBI) had registered 94 non banking financial companies (NBFC) to run microfinance institutions (MFI).

II. OBJECTIVES OF THE STUDY

The main objective of this study is to provide an overview of the working and evolution of micro finance institutions in India by using the literature based approach.

III. RESEARCH METHODOLOGY

This paper is based on literature review from various sources like research thesis, books, research papers, articles etc..this study is exploratory in nature.

IV. REVIEW OF LITERATURE

Many studies have been done on various aspect of on the impact of microfinance on women empowerment. Some of the previous studies given below:

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Malhotra (2002) constructed a list of the most commonly used dimensions of women's empowerment, drawing from the frameworks developed by various authors in different fields of social sciences. Allowing for overlap, these frameworks suggest that women's empowerment needs to occur along multiple dimensions including: economic, socio-cultural, familial/interpersonal, legal, political, and psychological.

Mayoux (1997) argues that the impact of microfinance programmes on women is not always positive. Women that have set up enterprises benefit not only from small increases in income at the cost of heavier workloads and repayment pressures. Sometimes their loans are used by men in the family to set up enterprises, or sometimes women end up being employed as unpaid family workers with little benefit. She further points that in some cases women's increased autonomy has been temporary and has led to the withdrawal of male support.

Ranjula Bali Swain (2007) Can Microfinance Empower Women? Self-Help Groups in India" concluded many strides have been made in the right direction and women are in the process of empowering themselves and NGOs that provide support in financial services and specialized training, have a greater ability to make a positive impact on women empowerment.

Roomi and parrott (2008) mention the status of women in Pakistan as a major barrier for the development of female entrepreneurs. They identified a lack of access for women to capital, land, business premises, information technology, training, and agency assistance in addition to missing encouragement by male family members in a patriarchal society, limited spatial mobility, and a dearth of social capital in Pakistan.

Van tassel (2004) showed that relinquishing control of a loan can be a way for a woman to ensure that her husband helps to repay the debt and thereby secure access to future credit in the event that the current loan project fails.

Susy Cheston (2002), Lisa Kuhn in their article titled 'Empowering Women through Microfinance' concluded Microfinance has the potential to have a powerful impact on women's empowerment.

Asim (2008) evaluates the impact of micro credit program on indicators of women empowerment in urban slums of Lahore district, Pakistan.

Hunt and Kasynathan (2002) describes that microfinance programs for women have positive impact on economic growth by improving women income generating activities.

Ranjula Bali Swaina and Fan Yang Wallentin (September 2009) examine in their article 'Does microfinance empower women? Evidence from self-help groups in India' concluded that their study strongly indicate that SHG members are empowered by participating in microfinance program in the sense that they have a greater propensity to resist existing gender norms and culture that restrict their ability to develop and make choices.

De Crombrugghe, A., Tenikue, M., & Sureda, J. (2008). investigate particularly three aspects of sustainability: cost coverage by revenue, repayment of loans and cost-control. Our results suggest that the challenge of covering costs on small and partly unsecured loans can indeed be met, without necessarily increasing the size of the loans or raising the monitoring cost. The analysis suggests other ways to improve the financial results, like a better targeting of the interest rate policy or increasing the number of borrowers per field officer especially in collective delivery models.

Kaur, P. (2016). The focus of this study is to look at the financial efficiency of microfinance institutions in India and analyse their efficiency to reach women and the poorest of the poor. Application of Data Envelopment Analysis shows, on an average financial efficiency of Indian MFIs is much higher than their social efficiency. However, study does not find evidence for the presence of trade-off between financial and social efficiency.

V. HOW MFIS OPERATES

A microfinance institution (MFI) is a financial institution that provides microloans and, in some cases, savings options. As a result, these organisations may appear to be similar to regular banks. An MFI, on the other hand, can operate in a variety of ways, depending on whether it is a non-profit, mutual fund, or cooperative.

Microfinance institutions in India organise a variety of groups to provide credit, insurance, and financial instruction to the rural poor and women:

Joint liability Group
Self help group(SHG)
Grameen model bank
Rural cooperatives

A unique operating model

While MFIs provide a solution to banking exclusion, they also play a valuable role in society, which forces them to **operate differently than traditional banking institutions**:

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the **eligibility criteria**, assessed before granting each loan, do not focus on strong financial guarantees (salary, assets, etc.), but rely instead on **more "human" criteria**: if the loan under consideration will help launch a new activity, its viability evaluation will also include **several interviews with the borrower** in addition to the application form.

the **real guarantee**, required by banks in order to grant a loan, may be **replaced by a group solidarity mechanism**. For example, with mutual funds or cooperatives, each borrower serves as a guarantor for the other members within a "**solidarity guarantee group**" such as self-help groups.

MFIs build **close relationships with beneficiaries** of microloans, while providing **strong support to borrowers**, in order to help them succeed in their projects, manage their budgets, etc. In this way, in addition to classic banking services, the MFI may offer training programs focusing on credit or family budgeting, developed solely for educational purposes.

the **repayment methods** for each loan may be **adapted to suit the target audience**, such as using weekly payment dates.

the **products are adapted to the target audience** in a way that has no real equivalent in the traditional banking world. This is notably the case for **group loans**: the MFI requests to **constitute a group of borrowers** and grants a single microloan to the entire group. Typically offered to the poorest borrowers, group loans do not require any guarantee, but instead **rely on the solidarity of all group members**. This creates a kind of "**social guarantee**": the members are responsible to the MFI, as well as to their co-borrowers.

Where do MFIs get their funding?

MFIs secure funding from a variety of sources, which depend in part on their status.

In this way, money granted through microloans may come from:

grants and subsidies, particularly during the MFI's creation,

member and customer deposits, for MFIs organized as cooperatives or mutual funds, as well as microfinance banks that also offer savings products,

the MFI's **own capital**, generally supplying a small portion of funding,

loans granted by one or more partner banks,

funding from public investors, typically comprising bilateral or multilateral organizations like the European Investment Bank (EIB), IFC, KFW, AFD, Proparco, etc.

private investors, supplied directly or through investment funds specializing in microfinance (**microfinance investment vehicles, or MIVs)**, which serve as the intermediary between the MFI and investors searching for a **socially responsible investment**.

VI. CONCLUSIONS

Although microfinance institutions have been profitable in india, there have been regulations and populist politics that have proved to be unfavourable to them. Microfinance institutions are highly dependent on the market for funding. That is why they are unable to perform effectively. Several microfinance institutions have converted into small finance banks. This means that they can lend at higher interest rates. MFIs are also finding difficult to grow independently without any support from anchor investors. Since financial inclusion is on rise, Govt of India has taken to many steps to eradicate poverty through microfinance. Many schemes and initiatives have introduced by govt to support, MFIs have many more years of opportunity remaining.

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