

ISSN: 2582-6433



INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed Journal Multi Disciplinary
Peer Reviewed 6th Edition

VOLUME 2 ISSUE 7

DISCLAIMER

No part of this publication may be reproduced or copied in any form by any means without prior written permission of Managing Editor of IJLRA. The views expressed in this publication are purely personal opinions of the authors and do not reflect the views of the Editorial Team of IJLRA.

Though every effort has been made to ensure that the information in Volume 2 Issue 7 is accurate and appropriately cited/referenced, neither the Editorial Board nor IJLRA shall be held liable or responsible in any manner whatsoever for any consequences for any action taken by anyone on the basis of information in the Journal.

Copyright © International Journal for Legal Research & Analysis



IJLRA

EDITORIAL TEAM

EDITORS

Megha Middha



Megha Middha, Assistant Professor of Law in Mody University of Science and Technology, Lakshmangarh, Sikar

Megha Middha, is working as an Assistant Professor of Law in Mody University of Science and Technology, Lakshmangarh, Sikar (Rajasthan). She has an experience in the teaching of almost 3 years. She has completed her graduation in BBA LL.B (H) from Amity University, Rajasthan (Gold Medalist) and did her post-graduation (LL.M in Business Laws) from NLSIU, Bengaluru. Currently, she is enrolled in a Ph.D. course in the Department of Law at Mohanlal Sukhadia University, Udaipur (Rajasthan). She wishes to excel in academics and research and contribute as much as she can to society. Through her interactions with the students, she tries to inculcate a sense of deep thinking power in her students and enlighten and guide them to the fact how they can bring a change to the society

Dr. Samrat Datta

Dr. Samrat Datta Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Samrat Datta is currently associated with Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Datta has completed his graduation i.e., B.A.LL.B. from Law College Dehradun, Hemvati Nandan Bahuguna Garhwal University, Srinagar, Uttarakhand. He is an alumnus of KIIT University, Bhubaneswar where he pursued his post-graduation (LL.M.) in Criminal Law and subsequently completed his Ph.D. in Police Law and Information Technology from the Pacific Academy of Higher Education and Research University, Udaipur in 2020. His area of interest and research is Criminal and Police Law. Dr. Datta has a teaching experience of 7 years in various law schools across North India and has held administrative positions like Academic Coordinator, Centre Superintendent for Examinations, Deputy Controller of Examinations, Member of the Proctorial Board



Dr. Namita Jain



Head & Associate Professor

School of Law, JECRC University, Jaipur Ph.D. (Commercial Law) LL.M., UGC -NET Post Graduation Diploma in Taxation law and Practice, Bachelor of Commerce.

Teaching Experience: 12 years, AWARDS AND RECOGNITION of Dr. Namita Jain are - ICF Global Excellence Award 2020 in the category of educationalist by I Can Foundation, India. India Women Empowerment Award in the category of "Emerging Excellence in Academics by Prime Time & Utkrisht Bharat Foundation, New Delhi.(2020). Conferred in FL Book of Top 21 Record Holders in the category of education by Fashion Lifestyle Magazine, New Delhi. (2020). Certificate of Appreciation for organizing and managing the Professional Development Training Program on IPR in Collaboration with Trade Innovations Services, Jaipur on March 14th, 2019

Mrs.S.Kalpana

Assistant professor of Law

Mrs.S.Kalpana, presently Assistant professor of Law, VelTech Rangarajan Dr. Sagunthala R & D Institute of Science and Technology, Avadi. Formerly Assistant professor of Law, Vels University in the year 2019 to 2020, Worked as Guest Faculty, Chennai Dr. Ambedkar Law College, Pudupakkam. Published one book. Published 8 Articles in various reputed Law Journals. Conducted 1 Moot court competition and participated in nearly 80 National and International seminars and webinars conducted on various subjects of Law. Did ML in Criminal Law and Criminal Justice Administration. 10 paper presentations in various National and International seminars. Attended more than 10 FDP programs. Ph.D. in Law pursuing.



Avinash Kumar



Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC - NET examination and has been awarded ICSSR - Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.

ABOUT US

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN 2582-6433 is an Online Journal is Monthly, Peer Review, Academic Journal, Published online, that seeks to provide an interactive platform for the publication of Short Articles, Long Articles, Book Review, Case Comments, Research Papers, Essay in the field of Law & Multidisciplinary issue. Our aim is to upgrade the level of interaction and discourse about contemporary issues of law. We are eager to become a highly cited academic publication, through quality contributions from students, academics, professionals from the industry, the bar and the bench. INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN 2582-6433 welcomes contributions from all legal branches, as long as the work is original, unpublished and is in consonance with the submission guidelines.

Role and Impact of Micro Finance Institutions in India

Authored By- Utkarsh Srivastava

Introduction

In today's world where every sector of human life is evolving still the economic structure is limited and several activities are not calculated or converted in terms of money. In general words, these activities can be monetized but there is no sufficient availability of expendable fund to carry out these tasks. So consequentially to tackle this issue, micro financing came into role took over such areas of distress where fund are meager. In common parlance, micro financing is that side of a same coin which gives liberty to those who are in need of actual money to start a business, go to school or even gain access to everyday livelihood. Micro finance has made a sudden surge in the economy, lately but still it faces divergent hindrances including its regulation, loan strategies and loan consumption. This article will make elaborative attempt to analyze "Role and Impact of Micro Finance Institutions in India" by describing its description, structure, challenges furthermore offer suggestions that could have lucrative effects on the micro finance industry.

Meaning of Finance Institutions

To understand the ambit, role and impact of microfinance institutions first we have to understand what the meaning of Finance Institutions is. A Finance Institution is a company which is engaged in the business of dealing with financial and money related transactions like deposits, loans, investments and currency exchange. These days' financial institutions have a broad range of business operations within the financial services sector which includes banks, trust companies, insurance companies, brokerage firms and investment dealers.

Mainly there are four types of Finance Institutions listed below:

- i. Commercial Banks
- ii. Investment Banks
- iii. Insurance Companies
- iv. Brokerage Firms

Definition of Microfinance Loan¹

A micro finance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.²

Importance of Financial Institutions

The financial institutions provide a marketplace for money and assets so that they can be used by the banks or institutions where it is needed most. If we take a very practical example from real life then the institutions earn money by providing loans and collecting profit from interest rates and at the same time a depositor earns interest from the bank on his deposit.

So, this is a two-sided business where one earns from the deposit of another and the other earns by depositing a particular amount and hence the needful gets the help and assistance.

Micro Finance Institutions

The basic and layman's definition of microfinance institution can be described as that these are small companies which give small or microloans to poor people or to people who can't avail of proper banking services in India. An amount of up to rupees 1 lakhs can be said as a microloan amount in India.³

In India there are different types of Institutions which offer microfinance are:

- i. Credit Union
- ii. Non-Government organizations
- iii. Commercial banks

Further, there are many government banks which also offer microfinance services to eligible borrowers.

¹ Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

² Reserve Bank of India, <https://rbi.org.in> (last visited May 12, 2022)

³ Bank Bazaar, <https://www.bankbazaar.com> (last visited May 12, 2022)

History of Micro Finance

The history of Micro-financing can be traced back as long as to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits for small credits to entrepreneurs and farmers as a way getting people out of the poverty.

Another pioneer in this sector is Akhtar Hameed Khan. At that time a new wave of microfinance initiatives introduced many new innovations into the sector. Many pioneering enterprises began experimenting with loaning to the poor people.

Today the World Bank estimates that more than 16 million are served by some 7000 microfinance institutions all over the world. In a gathering at a Microcredit Summit in Washington DC the goal was reaching 100 million of the world's poorest people by credit from the world leaders and major financial institutions.

Objectives of Micro Finance Institutions

Most microfinance institutions were formed to eradicate poverty but as time has changed and with the change in time we can see that now most of them are focusing on the sale of more products to the consumers. As per the World Bank data, over 1.7 billion across the globe do not have access to basic financial services and that is where the microfinance institutions play an important role.⁴

Now, if we talk about the main goal of most the microfinance institutions then they are as follows:

- a. To assist in the development of sustainable communities.
- b. To offer help to the lower section of society, and mainly to help the women of lower sections of society.
- c. To help to eradicate poverty
- d. To generate self-employment policies by giving microloans.

Microfinance institutions play a very important role in the economic development of the nation the main key benefits of microfinance institutions are as follows:

- a. It expands the ambit of opportunities for common people. As these institutions offer funds for their business.

⁴World Bank, <https://www.worldbank.org> (last visited May 13, 2022)

- b. It is very easy to take credit from these banks. Even a very small amount can also be taken for credit very easily.
- c. It serves fundamental needs like construction or renovation of the house, improvement of the health care facility and people can explore better business opportunities.
- d. Women of weaker sections can also avail of loans easily by this the condition and self-dependency in women is increasing day by day.

In case, ITO, Madurai v. Kalanjiam Development Financial Services, Madurai⁵ the court said that “Microfinance is seen as an effective tool to organize the unorganized and build their nested institutions through enabling the poor women. The primacy is on building the capacities of the poor and enabling them to manage the financial services and build strong, sustainable people's organizations to address their development and growth - financial and social.”

Groups Organized by Micro Finance Institutions in India

In India, there are four groups which organize microfinance institutions and they are as follows:

- i. Joint Liability Group:** This is usually an informal group that consists of 4-10 individuals. In this group, the loans are usually taken for agricultural purposes. Farmers, rural workers, and tenants fall into this category of borrowers. This institution does not need any financial administration, as it is simple in nature.
- ii. Self Help Group:** It is a group of people of the same financial status. In this, a group of people comes together to collect funds to fulfill their business needs for a decided period.
- iii. Grameen Model Bank:** It was the idea of Nobel Laureate Prof. Muhammad Yunus in Bangladesh in the 1970s. Later in India, it became an idea for the generation of Regional Rural Banks with the motive with generates an end to end development of the rural economic system.
- iv. Rural corporative:** It was established in India during the Independence Stage. In this system, the sources of weaker section people or sources of financially weak people were pooled in and financial services were provided to them from this fund.

⁵ ITO, Madurai v. Kalanjiam Development Financial Services, ITA 625/CHNY/2015

Regulation of Micro Finance Institutions

The regulations of Micro Finance Institutions are usually based on their statuses, regulations and orders given by the Reserve bank of India. A microfinance bank will be required to adhere to all banking regulations like traditional banks.

Traditional Banks versus Micro Finance Institutions

Most Micro Finance Institutions work very differently from the traditional banking systems, in the case of Micro Finance Institutions the process is very easy and less time taking and helpful for borrowers.

- a. Evolution of Eligibility:** In the case of Micro Finance Institutions the eligibility of a borrower is not scrutinized whereas if we study the traditional loan in such cases the background of the borrower is always scrutinized and further there should be a strong financial background for the allowance of loan.
- b. Flexible Repayment:** In the case of Micro Finance Institutions the loan repayment scheme is very flexible and it is in accordance with the borrower. The repayment of the loan can be done weekly or monthly unlike the traditional banks.
- c. Flexible Credit Scheme:** In the case of Micro-lending it has products that are usually adapted to suit the repayment capabilities of borrowers hence they can be used for repayment purposes in case the cash is not available to the borrower. This is one of the main differences between a traditional lender and a Micro Finance institution.

Process of Granting Microloan

For the microfinance institutions, there shall be a sense of trust and confidence in the borrower for providing the loan. Before the sanctioning of a microloan, a committee sits and examines the requests and evaluated and examines the capability of the borrower to repay the loan. Further, the viability of the project or cause for the loan is also considered.

How Micro Finance Institutions funded?

The microfinance institutions get the funding from various sources as follows:

- a. Member and customer deposits:** Members and customers do invest in such groups through mutual funds and by buying products.
- b. Subsidies and Grants:** For some defined purposes the grants and subsidies are granted to microfinance institutions for a defined purpose.
- c. Own Capital:** The microfinance institutions have their capital which they can lend to borrowers.
- d. A loan from Partner Banks:** This is a primary source of funding for Micro Finance Institutions.
- e. Funding from Public Investors:** This is a long term source for the institutions.
- f. Funding from Private Investors:** These funds are provided directly to Institutions and these are also long term funds.

The Micro Finance Institutions (Regulation & Development) Bill, 2012⁶ Highlights of the Bill

- a. It provides a statutory framework for the microfinance industry.
- b. It mentions that the Reserve Bank of India shall regulate microfinance institutions.
- c. The Bill provides for the creation of councils and committees at the central, state and district level to monitor the sector.
- d. The Bill provides for a Micro-Finance Development Fund managed by Reserve Bank of India (RBI).
- e. The Bill requires the Reserve Bank of India (RBI) to create a grievance redressal mechanism.

Key Issues and Analysis

- a. It holds the ambit of microfinance institutions to hold the interest rate to a certain limit.
- b. The bill provides the Micro Finance Institutions to accept deposits.

⁶PRS Legislative Research, <https://prsindia.org> (last visited May 14, 2022)

- c. The Development Fund for MFIs is to be managed by the Reserve Bank of India (RBI). The Bill also enables regulatory powers to be delegated to National Bank for Agriculture and Rural Development (NABARD). Both these provisions could lead to a conflict of interest.
- d. The bill provides for the generation of a microfinance committee but the institutions do not need to do so.
- e. The Bill allows Micro Finance Institutions to provide pension and insurance services.

Malegam Committee⁷

The Reserve Bank of India formed a sub-committee for the study of Micro Finance sector. This committee was formed by the board members of Reserve Bank of India and the objective of this committee was to deal with concerns in the microfinance institutions.

The Sub-Committee was under the chairmanship of Y.H. Malegam.

Further, the committee had to look at the activities of MFIs in relation to interest rates, lending and recovery measures to identify trends that impose on borrowers' interests.

Recommendations by Malegam Committee

The committee recommended certain conditions to be satisfied for Non-Banking Finance Companies (NBFCs) to be classified as non-banking finance companies – micro finance institutions:

- a. Not less than 90% of its total assets (other than cash, money market instruments and bank balances) are in the nature of “qualifying assets.”
- b. The income it derives from other services is in accordance with the regulation specified on that behalf.

Regulatory Framework issued by Reserve Bank of India for Microfinance Loans

“The Reserve Bank of India has instructed Regulated Entities (REs) lending to the microfinance sector to ensure that loans are collateral-free and not secured by a lien on the borrower's deposit account, that repayment obligations are capped, that interest rates are not usurious, and that there

⁷ BYJU'S EXAM PREP, <https://byjus.com> (last visited May 9, 2022)

is no prepayment penalty.”⁸

Key Points

- a. The central bank has removed the margin caps that were only applicable to non-finance companies.
- b. The Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, has taken effect since April 1, 2022.
- c. All co-lateral loans shall be offered to low income group families and as stated by Reserve Bank the family which earns below 3 lakhs annually is a low income group family and hence the loan will be termed as micro finance loan.
- d. According to the directions issued by Reserve bank of India the regulated entities must have a board approved policies which shall make repayment of loans with ease for the borrower so that the borrower can repay it periodically which-so-ever times suits him.
- e. Each regulated entities must approve a board approved policy which clearly states the loan rates, method of calculations and demarcation of interest rate components such as cost of funds, risk premium, and margin, among others.
- f. The reserve bank should time to time conduct a supervisory for the implementation of interest rates and methods of allocations of loans.

Challenges Faced by Micro Finance Institutions in India

Although microfinance institutions are doing exemplary in India and they are getting famous and common among peoples but still they face a tough competition among regular banks. As the traditional banks are now in the business of providing micro loans and hence people trust more on traditional banks than that of micro institutions.

The micro institutions are only depended on the funds which they generate by their own sale of products where as the micro institutions have more range of products and further various sources of income. Their structure are very strong that of micro institutions. Even a small fall in market can affect the structure of micro institutions but the thing is not same with the traditional banks.

⁸ Adda 247, <https://currentaffairs.adda247.com> (last visited May 12, 2022)

Microfinance Companies In India

Some of the microfinance companies that offer loans to the unbanked and under banked population in India as are follows:

- a. Arohan Financial Banks
- b. BSS Microfinance Pvt Ltd.
- c. Cashpor Microcredit
- d. Equitas Microfinance Pvt Ltd
- e. Asirvad Microfinance Pvt Ltd
- f. Bandhan Financial Services Pvt Ltd.
- g. Disha Microfin Pvt ltd
- h. Annapurna Microfinance Pvt Ltd
- i. Esaf Microfinance and Investments Pvt Ltd
- j. Fusion Microfinance Pvt Ltd

Conclusion and Recommendations

In this project it has been discussed that how the financial institutions are working in India and what is there practical implementation and real impact on society. Further, this article also talks about the guidelines of Reserve Bank of India and its aim before these institutions. The challenges which are faced by micro institutions might impact them hard but the key solution to those impacts is the continuous investment in institutions.

As we all know financial institutions are the integral parts of India economy as it plays key role in economic development and even in development of the whole nation by providing various types of services. Therefore, India financial institutions are very strong but operations of the same are adverse, somewhere we are lacking in its implications. Like still our most of the population is still unaware of all the services and products provided by our financial institutions. However micro finance plays the major role in the alleviation of poverty from the society. Many banks in India have initiated to lend money to the micro finance institution. It works towards the empowerment of women, small startups, small groups, lower income group families and specially aiding to provide education aids to weaker section of society which is the great move towards the development of the country.

My recommendations for Micro Institutions are that these institutes should work on their basic structure and should work on their funding. To run any institution, either financial or non-financial, NGO there shall be a strong funding towards it and a strong basic structure for that which is still not there with the case of micro institutions. Secondary, people trust traditional banks more than that of microfinance institutions and this is something which has to be work by micro institutions, micro institutions should generate a bond with the society and with its borrowers so that anyone can trust them significantly this will help them with their funding also and it will improve their image in society also.

