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MICRO – FINANCE: AN OVERVIEW

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ABSTRACT:

Micro finance is financial services provided to poor and low income clients to help them in rising their income and improving their standards of life. It is a source of financial services for small businessmen lacking access to banking system and other financial services. In the previous chapter focus has been given on introductory aspects of the study, which includes objectives of the study, literature review, problems of study, hypothesis, and methodology, followed by plan of work. This chapter describes origin, characteristics, importance and role of the microfinance. The prime purpose of microfinance is to set out how microfinance institutions are taking incentives for economic development of the country by reducing poverty. In this regard micro financial institutions are providing financial services to such low income people having excluded from formal banking system due to its unpredictable and irregular income.

KEY WORDS: *Communication Skills, Gender, Locality, Type of management and Students.*

INTRODUCTION –

In India, in the era of globalisation, micro-finance has been treated as a solution to the credit issue of low-income workers of unorganised sector and weak women through entrepreneurship and SHG (self-help group) formation in the domestic industry.

Microfinance is a significant tool of poverty reduction, it provides various resources and access capital to financial poor people unable to get account, various lines of credit and loans from existing banks. In absence of microfinance economically unsound group can depend on risky loans on very heavy interest rates. Against this backdrop, microfinance provides poor people, particularly women a chance to get interest in business for removing their poverty. In other words it is also termed as micro credit, which is an option to provide loan to small business owners. In many cases these small business do not have option to access loan amount from traditional institutions for promote their business. In India microfinance is a powerful way by which loan, credit access to saving account and money transfer may become possible to small business in underdeveloped and mostly rural area of India. Beneficiary of microfinance are such who don't have access to this types of financial resources. The interest rates of loans of microfinance are mostly more than that of traditional loan.

In economy microfinance involves extension of small loan amount and so many financial services provided to very poor income groups. Microfinance plays significant part in social upliftment, which is sound economic conduct designed to facilitate financial inclusion by assisting poor to work for removing poverty. This types of loans are important because borrowers have no collateral. Of course the rate of interest of these microloans are mostly extremely high because of risk of default is there. Normally microfinance encompasses micro saving and micro loan. It is micro financial institutions which provide small loan and many other resources to small business clients to help them to get his business on the road. The term microfinance is termed by Muhammad Yunus to help the financial unsound people by providing them proper capital to initiate business for their financial independence.

Microfinance servesas a powerful resource for the people residing in developing nations, particularly females for removing their poverty. According to the 2021 microfinance report in India women are the major portion microfinance borrowers, holding 85 percent of loans amount in 2020.It is found that microfinance is a proper way to remove the poverty cycle, which declines unemployment and enhances caring power and aid financially marginalised people.

MICROFINANCE AN OVERVIEW

It has been found that microfinance do not work proper and hence not able to achieve its mission. Many of the economist of the country argued that microfinance transforms poverty more worst because most of the clients uses micro financial loan to pay for primary requirements of life or their failing business, which plunges them in debt. In spite of that in our country India microfinance can be used as a significant tool for the poors if used properly.

The micro financial services are fostering women of the society to gain financial independence for empowering them to take proper decisions. Various micro and small enterprises are women owned and providing them proper financial options for improving their livelihood and incomes. Microfinance help small income household to transform their income flow for future requirements. In this sense microfinance help small business and low income families. Microfinance plays significant part on poverty alleviation from the nation and the society. Financial institution has been instrumental in shaping the economic development. Indian financial institutions are very effective by operating their activities in very adverse conditions and these institutions are lacking its implications. Of course Indian micro financial institutions plays key role in reducing poverty from the country. It plays significant role in empowering the women for developing economics of the country.

In India microfinance basically benefit the low-income groups and the poor bracket of society. To provide fund without any collateral is major objective of business model. It is only eligible to provide the credit up to Rs.50,000 and Rs.1,50,000 to people of rural and urban India. Microfinance objective is to aid people of low-income section by providing them credit through simple and easy provisions. There is no way that microfinance in this situation can change the interest rate or any other services parameter without the consent of Reserve Bank of India. They are liable to implement business activities as per proper guideline of Reserve Bank of India accepts the application regarding registration of microfinance institutions and applicant has to produce concerning documents regarding this purpose.

OPPORTUNITIES FOR MICROFINANCE INSTITUTIONS

Below stated advantages of MFIs must be considered–

- Mostly the microfinance institution requires no collateral for getting credit. Less document and paperwork and easy processing make a fit option for fast fund raise.
- Disbursement of fast loan as per requirement – The microfinance institutions can provide secure and collateral – free loan to such individual in the demanding situation to fulfill their financial requirement.
- Help to fulfill needs – Again, the financial companies grants wide range of services when it comes to loan. The negative part is that it is not accessible to poor people or groups. Microfinance

institutions, offer different proposition always. They are focusing to serve poor and unemployed individual by allowing them or simple and easy credit system.[3]

- Extensive loan – In India the microfinance institutions are not mere concentrated to providing credit but also able to disburse, business loan, and working capital loan with easy formalities and process.
- Promote entrepreneurship – Indian microfinance institutions provides funds to poor individual for starting up a business that require low investment and provides sustainable profit in the long period. Hence, these institutions promote entrepreneurship and self-sufficiency among the poor and less income group-people.

THREATS FOR MICROFINANCE INSTITUTIONS

- Tough repayment – Due to lack of working protocol and compliances, microfinance institution can practice such repayment method which any person will not accept in the state of the financial problem. Smooth debt not comes with easy conditions, and that is right with microfinance institutions. Though these institutions work under tight compliances, they could manage customer for repayment the same.
- Small loan – Further unlike formal traditional banks, microfinance institutions offers low loan amount. Since these banks do not call for any collateral against the credit and the disbursement of the huge loan amount is practically not possible in these case and condition.
- High role of interest – Apart of this another problem with microfinance institutions is that they are not fit and unable to render low-interest rate loans. This is because they don’t follow traditional banks’ style and process.

ORIGIN OF MICROFINANCE

In Indian MFIs are of two types, such as regulated by the Reserve Bank of India, called nonbanking financial companies, and other run by non-profit trusts and societies.

It is a class of financial services making target to poor individuals and pity business who are lacking access to formal banking system and other financial services. Microfinance mainly include

(1) Microcredit, the provisions of small loans to low-income and poor clients.
(2) Savings and checking accounts.
(3) Microfinance and
(4) Payment systems

Apart from this other services, microfinance services are structured to connect with excluded customers, usually poorer and low income populations, possibly socially and economically deprived and geographically more fragmented to help them for making self-dependent.

Microfinance is the provision of microloans to low income and poor entrepreneurs and small businessmen, who lack access to credit. Group models, when many entrepreneurs come to apply for loans and other financial services. After passage of time, microfinance has come as a movement which objective has been a world in which everyone, especially poor and socially deprived people and poor household having access to a vast range of affordable, quality financial products and financial services, including credit and savings, insurance, fuel transfer and payment of services.

As per the report of the 2029 of World population this is well established fact that major portion of the Indian population lives in rural part with no facilities and minimum knowledge and have low amount of development measures, matched with officially established source is 85.87 percent, India the second highly populated country where 64 percent of the population involved in agriculture leads to underemployment and that again leads to low income per capita. As per the World bank report , more than 550 million people have improved their economic status through microfinance. According to the International Finance Corporation report as of 2021 over 180 million people have been directly benefited from the microfinance. Near about 25 percent of the three billion people who come under the category of the poor avail microfinance. IFC also helped in improving the credit reporting bureaus in 40 developing countries of the world. Microfinance is also a source of raising capital for the low-income people, which empowers women of the country, which can lead more stability and prosperity in family life. The term Microfinance, is provision of financial services mainly of saving and credit to low-income households who do not have access to traditional financial institutions. The Task Force for microfinance set up by NABARD defines microfinance as provision of credit and some other financial services and products of very low amounts to the poor of rural, semi urban or urban, India for making them to raise their income limits and up lift living standards. The financial services include loans, payment, money transfers and insurance to low income households and their business. The term micro-finance is used for such financial services, offered to poor individual having low socio-economic status and lacking access to traditional financial system services. It includes various services like saving accounts, checking accounts, micro-insurance, microcredit and fund transfer. Microfinance is supposed to be provision of financial services to poor borrowers or lending group including such poor people. Who are traditionally lacking access to formal banking services and other financial services. Microfinance mean to provide microcredit (small loan amount) to low income poor people or poor families so that to help them in their productive activities or small business.

The story of microfinance can be observed back to the second half of the 18th Century. In the 1800s, the benefits of low credits to entrepreneur and farmers was given to reduce poverty. In 70's the word “microfinance” was firstly introduced in this period of development of the Grameen Bank of Bangladesh, which was given by the microfinance pioneer, Dr. M. Yunus. In 1978, Yunusinstitutionalised the idea of microfinance, along with the foundation of Grameen Bank. Further another important person in theis area is Akhtar. H. Khan. In this period a new wave of microfinance initiatives was introduced and so many new innovations came in the sector. Many pioneering enterprises began witnessing to provide loan to the poor persons. Today the world bank estimates that more than 24 millions are served by 11000 microfinance institutions all over the globe. In a report of Microcredit summit the goal was fixed to reach 125 million of world’s poorest people by credit. Further the year 2007 was said to be the international year of Microcredit by the economic and social council, to call for the financial and building sector to fuel the entrepreneur spirit of the poor people around the globe.

There are four key goals of the Microcredit. There are –

(1) Promote the contribution of microfinance institutions.
(2) To make a supporting system for sustainable assess of financial services.
(3) To support partnership by encouraging new innovations.
(4) The promotion should be inclusive for the financial sector.

The story of microfinance can be witnesses back of the 1800’s, when the L. Spooner was written regarding the benefits of small credits to entrepreneurs and farmers for getting people out from the poverty. Presently the use of term microfinance has been profounded by Muhammad Yonus who was started the modern industry of microfinancing. The idea of microfinance was institutionalised by M. Yunus in 1976, with the foundation of Grameen Bank in Bangladesh. Another Pioneer in this sector has been social scientist Dr. Akhtar H. Khan. Though people of the developing countries largely depend on farming or food trade for livelihood, important resources have gone into supporting small agriculture in developing nations on the creation of microcredit of social entrepreneur Muhammad Yunus in1983, microfinance was simultaneously created. In 1983, Yunus set up Grameen Bank in Bangladesh. The objective of Grameen Bank was to provide small amount of loans to small businessmen.

Yunus' vision for microcredit was inspired when he saw women making bamboo stools in Bangladesh earning two cents in a day. He decided that if a women can be able to fall back on a loan, they can be able to improve their margins and gain a more profit. After giving them a loan amount of $ 28, following the group model, the women were became able to repay the loan amount and keep their business in operating condition.

MICROFINANCE MOVEMENT

The thought of Microfinance is not new as it has seen in the long past. The concept of microfinance can be traced back in India. In 1959, efforts were made to bring revolution in Bangladesh by Hameed Khan, in the form of formation of an Academy for Rural Development.[7]

The economists around the globe accepted that poor access of micro-financial services. During this time, Dr. Muhammad Yunus highlighted and popularised the idea of microloans as he thought that peace prevails only when hunger will be fed. Further Dr. Yunus witnessed the miserable conditions of land less women labouring for other persons. He started to giving loan to female workers and found that she can start new business and improve their living standard.

It was the first stage in the receipt of credit is the formation of group of 5 members that come once a week for loan amount repayment. Loans were initially made by two individuals in a group, who were under pressure from the rest of the members to repay timely. They were the borrower to repay the loan at weekly instalments. Again account were organised by the groups. The amount in the Fund was deposited in any members may borrow from this fund for various purposes like, sickness, social ceremony or even for reinvestment. In the case of any default in repayment or failure of meetings, the defaulters may be fined. Any members are free to leave the group before the repayment of loan, whenever, the responsibility to pay the balance goes in the part of remaining members.

The key strategies practiced by the Grameen Bank is as follows –

- There is an exclusive focus on the poorest of the poor.

1) To establish the eligibility criteria of clients.
2) To deliver credit, priority must be given on increasing assign to women of poor family.
3) To deliver in order to meet the diverse socio-economic development needs of low income group.

- Borrowers must be managed in small homogeneous groups. This characteristics provides group unity and also participatory interaction.
- The special loan conditions which are suitable for the poor borrowers. These are:

1) Very small loans are given without no collateral
2) Such loans repayable in week instalment which is spread over a yearly.
3) A very close supervision of credit is needed by the group.
4) The eligibility for a loan depends on repayment of first loan amount.
5) A stress is given on collection borrowers' responsibility.
6) A safeguard will be managed by compulsory and voluntary saving to minimise the risks of the poor.
7) To undertakesocial development agenda of basic needs of the borrowers.

Therefore, the lending activity of Grameen Bank includes the group guarantees, inculcating savings and also transparency of transactions. A more outstanding feature is the manner of grant of credit without no collateral. The availability of lending outlet of the borrowers easy application process, and fast disbursement of loan amount are the key techniques to ensure good rate of repayment.

In India the Grameen Bank is presently lending loan amount of $ 1800 million per year with an average loan amount of $ 1309, the bank has 14 million borrowers, 96% of them are women having unmatched repayment rate of 97%.

Components of Microfinance

The micro-financial institution plays major role in poverty alleviation, its wellbeing efforts has attracted the attention of government in the developing nations like India. The concept behind this that the microfinance loans will promote poor to participate in the economic development of the country by setup small business, Microfinance has originated with micro credit, which is for giving small loans to those who have no regular source of income (collateral) or some other history of credit. Its main purpose has been to support entrepreneurs having no financial back up for capitalising the idea. The prime objective of microfinance is similar to micro credit, for providing financial services help to encourage entrepreneurs in enhancing national development. The goal of microfinance is to enhance economics, decline unemployment and promote small nature of business. Microfinance is support to be a financial services offered to individual of financial services. Hence microfinance includes many services like checking accounts, fund transfer, saving accounts and micro credit. The concept of microfinance revolves around banking for the poor and banking with the poor. This banking structure open vistas of financial for underprivileged people having no otherwise source because of lacking collateral.[9] Microfinance is such financial services like saving account, insurance fund and credit given to the low income poor people of the society for increasing their income for increasing income. In this regard following components has been considered

Microloan

Microloans are small loan lent to a client by financial institution. The microfinance loans are important because it provided to borrowers without any collateral. The significance of microloan is to provide it without collateral and the borrowers are not forced to pledge security for repaying the loan amount. It provides proper overall rate system. It encourages & future investment and offers poor people a better life. These loans are very important as these loans are provided the borrowers having no collateral. Microloan is small amount of money taken by borrower by the banks or any other financial institutions. Sometimes micro-credit may be allowed without any collateral for an individual or through group. The main objective of micro credit is to provide credit to needy people. Micro loan is generated by micro credit, which is extension of very small loan amount to poor borrowers, who lack collateral and fast employment and having different credit story. In India and Indian states it is the way by which loans are provided to the small businessmen.

Micro-savings

It is small saving of poor people for future use. This microsaving account allows small businessmen to handle saving account without minimum balance. This types foster users to inculcate financial discipline and to promote interest in future sessions saving. The prime focus of micro savings is for the low income people or small business people to operate account without minimum level balance. These accounts cannot force people to maintain account with no minimum balance amount. Micro savings are low amount of money that permits poor income group people for saving small amount of fund for coming years uses. These types of saving accounts are sometimes without minimum balance. Hence these becomes foundation of collateral for micro credit. In other words, it is a branch of micro finance composed of small deposit account provided to poor families of individuals of low income for storing funds for future potential use. Further micro saving accounts works same as standard saving account but it is designed to operate small amounts. This system has option to such low income people, who want to build assets having limited income. Micro savings mainly focus on small saving options without limited budget. The main types of micro savings are

- JLG (Joint Liability Group)
- SHG (Self Help Group)
- Grameen bank Model
- Rural Co-operatives

Micro-insurance

It is kind of coverage which is provided to borrowers of the micro loans. This type of insurance plan offers lower premium than traditional insurance policies and practices. The significance of micro insurance is that it is valuable tool to protecting poor people of the society from all the problems take place in coming sessions. Micro insurance is a financial tool having low premium structured to serve low income group people having not served by commercial insurance schemes and promote mitigating risk involved health and properly. Micro insurance is a way of protecting people of low income strata. In real sense it refers to such insurance product that is structured to be beneficial to poor people or groups. Actually it is tool for protecting low income people against any risk. Micro-insurance may be of below strata types

- General Micro-insurance
- Health Micro-insurance
- Pension Micro-insurance
- Property Micro-insurance
- Term Micro-insurance

A vast portion of population in India is in underprivileged zone, and is lacking access to benefit of different financial services like insurance banking etc. keeping these things in view micro-insurance is a key effort to help low income group people: In other words it is insurance policy structured for the betterment of economically backward people. Micro Finance is financial services like Savings Accounts, Insurance Fund and credit provided to low-income borrowers to help them to rise their income and improve their standard of life. Micro finance is treated as a source of financial services for small business which lack access to banking and other financial services.

- To provide loan without any security.
- Provide loans to poor people having BPL bracket.
- Members of SHG can get benefits of Micro Finance.
- The maximum limit of loan amount under microfinance is relatively of small amount.

Microfinance Institutions in India

The prime Micro-financial institutions in India are bellow –

1) Bandhan financial services pvt ltd.
2) Asirvad microfinance pvt ltd.
3) Equitas microfinance pvt ltd.
4) Annapurna microfinance pvt ltd.
5) BSS microfinance pvt ltd.
6) Arohan financial banks
7) Dishamicrofinpvt ltd.

Types of Micro-Finance Institutions:

In India the microfinance models has been set up in order to counter the financial challenges in financially rural backward areas of the country. There are various types of microfinance institutions operating its activities in India. These are as follows. The JLG (Joint Liability Group) can be described as the informal group consists of 5 – 15 people having tried to get loans against mutual and common guarantee from formal banks for their agricultural and other allied purposes. This type of section mainly made up of farmers, tenants, returns and other rural work force. They mainly work for lending loans but also offer the savings facility. In this class of organisation every people of borrowing group is equally liable and responsible for the credit. This kind of institution is simple in form and character. One of the alarming problems of this type is personal preferences in lending credit which come out in failure of the total system. Later on due to many promotional initiatives taken by Indian bank, and IOB, the credibility of JLG model has received a promotion. It remains a big movement in the field of protection of farmer's land ownership rights of the nation.

Self Help Groups - Self Help Group is operating as formal or informal groups consists of small business with some type of sociological and economic back up. Hence mostly individuals come together and open a joint fund to meet the emergency requirements of business. Hence, these groups are normally no-profit making organisations. The group takes the role and debt recovery. The prime advantage of the micro-lending system is that no collateral is required for getting loans. Further, the interest rates are also low and fixed mainly for women borrowers. More over so many tie ups with banks by Self Help Groups (SHGs) have been implemented for improved financial inclusion in rural areas of the country. The most prime one is NABARD, SHG linkage program where many self-help groups (SHG) can loan credit from bank once and they successfully maintain a track record of regular repayments of their loans. It has been very successful mainly in India.

Grameen Bank Model

Nobel Prize winner Dr. M. Yunus propounded this Grameen bank Model during 1970s. It has been widely recognised and accepted in India in the way of Regional Rural Banks (RRB). The main objective of this system is to promote overall development of the rural economy of the nation which generally consists of financially backward income group people. But this model has not been got success in the country.

Large volume of NPAs led to failure of the regional banks with compare to this Grameen Bank Model Self-Help Groups (SHG) have been more fit and better for the distribution population density of the India.

Rural Cooperatives

In India the Rural Cooperatives had been set up at the time of independence by the central government. They developed and used the system to promote the resources for people with small means and to provide financial services. Due to their complex design, their success has been poor. In addition, this system only locate to the credit-worthy people of rural areas and not cover large part of the Indian financially low income backward class of the country.

Financial Systems

In India the microcredit movement which started in the last part of 2020's country has emerged and taken shape into financial systems for creating global financial inclusion. While Grameen Bank model of delivery low credit attained a big deal, mainly in urban and semi urban areas. The progress in delivering financial services in thinly populated rural areas has been slow and creating the requirement for various models to spread throughout the world. This term came from Microcredit, to Microfinance, and to Financial Inclusion. Prime microfinancing organisations regularly expand their services, and competing with bank, credit, mobile money, and other informal and formal members institutions.

Then even the new financial method approaches to acknowledge the soundness of microfinance history and the immense diversity of institutions serving poor and low income people of developing and developed economics. It is also seen that an enhancing awareness of diversity of financial service need to the world poor and low income people, and such diverse way in which they work and live. It is viewed that the quality and range of financial services are significant for the banking system to achieve effective financial inclusion. The Central banks and the mainstream banks are now properly engaging in the financial inclusion agenda than ever before, because it is a long way, with 35 – 40 percent of world adults remain outside traditional banking system. It is NGOs which spread around the developing nations in the yester three decades, address vast regions. They have become very innovative, pioneering techniques such as solidarity lending, village banking and mobile banking that have negate barriers of handling poor and low income population. Further, with board that donotrepresent neither their clients nor governance style and can become more dependent on external donors.

Apart from commercial banks, it includes state banks, agricultural development banks, rural banks, saving banks and also non-bank financial institutions. They are supervised and offer wider range of financial services, and control a branch network system to extend across the nation and global level. Formally microfinance has highlighted to provide standard credit product. The poor, other person, need a diverse range of financial tool to become able to build assets, regulate consumption and protect against risks. Therefore in broadening of the ideas of microfinance the current challenge is to find full proof ways of providing a sound set of microfinance products.

The microfinance borrowers are low-income, poor persons that have no access to formal financial organisation. The microfinance borrowers are mainly employed sometimes household-based entrepreneurs. In Bihar rural areas, they are small farmers and some others those are engaged in low income generating work like food processing. In urban areas of Darbhanga Division microfinance activities service providers, shopkeepers, artisans, street vendors and soon.

CONCLUSION

In India microfinance programme is treated a significant development tool to negate poverty and empower the women in India like other developing nations. Inspite of various efforts from all the corners, microfinance not always productive in empowering poor women, of course most of the women have witnessed few degree of empowerment. It is micro credit which gives strengths to women by making foundation of financial base and contributing in economy and in enhancing bargaining power. It is apparent that microfinance alone cannot provide full empowerment to the poor women or can uplift the living standard of the family of women borrowers, who have oppressed by made dominated society in India.

Hence, microfinance is considered as a solution for empowering women by increasing her decision making power and self-esteem need even in household related issues. The microfinance for female is promoted not for strategy only for alleviation but for women empowerment also. In most of developing countries including India lot of works have been done for developing microfinance for poverty alleviation and diversification of livelihood. Hence women empowerment is supposed to be major output of microfinance.

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