MICRO FINANCE: RAY OF HOPE FOR POOR FAMILIES

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Abstract: *Microfinance means providing very inferior families with very small loans (micro credit) to help them engage in worthwhile activities /small businesses. Over time, microfinance has come to include a wider range of services (credit, savings, insurance, etc.) as we have come to recognize that the poor and the very poor that lack access to traditional formal financial institutions require a blend of financial products. Micro Finance can contribute immensely to the financial enclosure of the poor without which it will be impossible for them to come out of the vicious cycle of poverty. Microfinance is a method to promote economic development, employment and growth through the help of micro-entrepreneurs and small businesses. Proponents usually claim that microfinance lifts people out of poverty. The objective of this study is to understand the micro financing fundamentals, working techniques, principles the importance and role of microfinance in poverty mitigation, profitable agriculture activities and practices to construct relevant suggestions and conclusions.*

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INTRODUCTION

Microfinance is a source of financial services for businesspersons and small businesses lacking access to banking and related facilities, microfinance is a movement whose object is "a world in which as many poor and near-poor homes as possible have permanent access to an appropriate range of high quality financial amenities, including not just credit but also savings, insurances, and money transfers. Improved access and efficient provision of saving, credit and insurance amenities would enable the poor to set up economic assets, manage the risks batter and increase earning capacity and resultantly improve their standard of living. Its main aim is to provide a cost effective device for providing financial services to the poor.

Micro finance refers to the provision of financial facilities for both credit and deposits that are provided to the people who are living with the poverty. Micro finance gives finance generally to such formal and informal arrangements offering monetary services to the poor. Throughout the globe, poor people are excluded from formal financial scheme like banking, insurance and so on. Difficulty to avail such formal banking service, the inferior one has adopted a wide variety of informal financial arrangements to cater their financial needs. At present, this difficulty is settled with the establishment of micro finance institutions.

The expression of microfinance was positively used in 1976 when village Jobra (Bangladesh) established its Garmin Bank of Bangladesh under the headship of Mohammad yunus (Nobel peace prize winner in 2006) who shaped the new microfinance industry. Microfinance is a powerful tool of providing financial resources to the main sector and low income group to encourage entrepreneurship and growth of economic movement in an economy. It presents a series of exciting and acknowledged possibilities for spreading market thereby reducing poverty, gender empowerment and promoting social revolt.

The mantra of “Microfinance” is banking with the support of groups. The essential features of the approach are to provide financial services with the support of the groups of individuals, formed either in joint liability or co-obligation mode. The additional dimensions of the microfinance method are:

- Funds
- Credit is related with savings
- Absence of subsidies
- Group plays an important part in credit appraisal, monitoring and recovery.

DEFINITIONS OF MICROFINANCE

- “Microfinance refers to small-scale monetary services for both credits and deposits - that are given to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial amenities. Ultimately, the goal of microfinance is to give low income people an opportunity to become self- sufficient by offering a means of saving money, borrowing money and insurance”-(Robinson)
- "Microfinance is banking the unbankables, bringing credit, savings and other essential financial amenities within the reach of millions of people who are too poor to be served by regular banks ,in most cases because they are unable to offer sufficient collateral, in general ,banks are for people with money, not for people without"-(Gert Van Maanen)

FUNDAMENTALS OF MICROFINANCE

- To ensure that the responsible entrepreneurs and low salary group people in the economy are the target consumers.
- To provide all necessary information and aware the target customers about risk involved in credit benefits,interest rates, borrowing methods,repayment schedules, contravention of rules and fines and penalties etc ,to bring self confidence among its customers for a responsible loan repayment to operate lucrative under microfinance industry.
- To modify the traditional financing industries into modernized and particular institutions to reduce operation cost and provide innovative monetary services through good delivery system which serves the poor people to encourage their welfare and economic development of the country.

- To expand loan sizes & guarantee of ready access to future loans if present loans are repaid fully and immediately.
- Establishing strong business contacts with consumers availing credit and loan facilities, for interest payments and repayment of principal sum.
- Taking appropriate and prompt response to the obstacles relating to payback of interest and principal given to customers.

ESSENTIALS OF MICROFINANCE GOVERNANCE

- **Ownership of micro finance institution:**

  The fundamental to successful management of MFIs are the structure of MFIs it can be public, nonprofits, for profit and credit union.etc
- **Dual objectives:**

  A MFI should have both financial objectives and welfare tactic also both to sustain solvency position and to serve low income group people.
- **Responsibility of microfinance institutions:**

  MFIs should have a fiduciary responsibility to offer continuous access to financial resources to low income group and use the organized funds from floating instruments in the local securities exchange and loans from banks wisely and judiciously.
- **Risk Management:**

  MFIs should have good risk assessment techniques like gathering customer's information about their creditworthiness, skill to face better competition, strong monetary skills to mobilize savings and give innovative financial products.
- **Promoting paramount practices in microfinance governance:**

  The best practice to improve MFIs governance can be to hire qualified people and appoint board and directors if the MFI has a robust corporate structure. The directors must have financial markets knowledge, marketing knowledge, fundraising skills, good legal and regulatory knowledge in credit risk control.

NEED OF THE STUDY

- The need of microfinance arises because the rural India requires sources of finance for poverty mitigation, procurement of agricultural and farms input.

- Micro finance is giving the benefits of financial services such as deposits, borrowings, payment services, money transfers and insurance to low income group and poor portions and their Tiny and small enterprises.
- Micro finance is a programme to help the poor rural people to pay its debt andmaintain social and economic position in the villages.
- India is agriculture based economy so microfinance is a tool to permit the farmers and rural peoples to make agriculture profitable.
- It is an effective tool for making the banking services available to the rural community, where facility of banking is not easily available toall these people.
- In order to enable the poorpeople to access credit , there is a requirement to strengthen all the available channels of providing credit to the poor such as SHG-Bank Linkage programmes, Micro Finance Institutions , Cooperative Banks, State financial corporations, Regional Rural Banks and Primary Agricultural Credit Societies.

OBJECTIVES OF THE STUDY

- To recognize the concept of microfinance.
- To study the basics of micro financing.
- To studyprerequisitesof microfinance governance.
- To analyze need of study microfinance.
- To study and understand working process for microfinance.
- To analyze the growth and potential of the microfinance institutions.
- To analyze the structure and form of microfinance programme in rural Indian by the MFIs.
- To read the importance and part of microfinance in poverty alleviation and profitable agriculture activities.
- This paper discovers the risk of MFIs in practices**.**
- Finally paper concludes with recommendations to overcome the issues and challenges associated with microfinance in India.

VARIOUS MODELS OF MICROFINANCE

- **The SHG model**

The self help group model has evolved in the NGO sector. A variety of representations arise out of NGO nurturing among which SHGs have become the most famous.

SHGs are small informal groups comprising of membership of ten-twentypeople. The arrangement of membership is mostly exclusively male or exclusively female. The associates are self selected with a liberty to choose their group depending on their level of affinity with the other capable members. The group meets regularly at an appointed time and place and carries out its monetary transactions of savings and credit. The roles and norms of the group are found by the members themselves. The NGO provides them with support services, training and developing relationships.

However, there are definite features of SHG that need to be looked into:

- The group promotion process is long and the poor have to wait for long time.
- The amounts available in the beginning are very small and all the associates cannot take loans at the same time.
- The functioning of the association relies completely on group dynamics which are very difficult to build in.
- Conflicts arise on seemingly trivial goals which can lead to the break-down of the group and it is difficult to rebuild it.

Despite these few disadvantages, SHG still is a famous model for micro finance in India.

- **Federated SHG method**

The federated SHG method builds upon the unique types of SHG based micro finance and contributes to factors that improve the sustainability of SHGs. Federations spread the opportunity offered by the SHGs, expands empowerment through leadership building and addresses the component of security through insurance services. Federations often come under the Societies Registration Act. PRADAN and MYRADA, are the two large NGOs that founded the concept of SHGs.

- **NGOs**

NGOs are voluntary social work organization that renders help to government and society for improvement of quality of life people. NGO assist in the formation of SHGs.To reduce the smaller transaction NGOs help banks. Over the last quarter century, a few establishments, outside the purview of the public sector, have succeeded in effective poverty mitigation through micro-credit. Main objective of NGOs is to gain attention about microfinance by conducting conferences in rural areas.NGOs provides the least knowledge related to the finance,helps people to enhance their skills in education, making interaction between the SHGs and banks.

- **Role of Govtin microfinance**

Government interested in making SHGs suchas RashtriyaMahilaKosh , Indira MahilaYojana, Swarnajayanti Gram SwarojgarYojana (SGSY) launched in 1999, Swarnjayanti Gram SwarojgarYojana(SGSY) has emerged as a main anti-poverty programme.

- **The Garmin Bank Model**

The grameen bank methodology which was a case of exceptional success first evolved in Bangladesh and was launched by many other organizations in India with slight variations. Some of the features are as follows:

- Homogeneous groups of 5 members are formed at village level
- The field worker facilitates the process of group forming
- All the group members undergo a 7 day compulsory training
- Some groups undergo the group recognition test
- 8 joint liability groups affiliate together to form a centre
- The centre meets every week at a defined time and a bank assistant attends the meetings.

Group discipline is enforced through peer pressure. Collateral is replaced by peer pressure. The incentive to timely repayment is repeat loans and continuous access to increasing credit from the bank. A field worker maintains a check on loan utilization.

- **Non Banking Finance Companies**

The NBFCs has emerged as a nearest substitute for those MFIs who want to go the for-profit route. Since getting registered as a bank is costly and the local area bank idea has not been pursued beyond the initial approvals, the NBFC route is increasingly being chosen by profit driven MFIs. They can also enter the capital markets. Since the poor are bankable and lending to them can be commercially viable it is not necessary to depend on low cost funds to lend to them. Secondly, since the amounts required are huge, the financial markets are the only way to mobilize resources. This would mean mobilizing debt at market rates of interest. The for-profit NBFC route is currently the best way to operate in the capital markets. For regulatory purposes, NBFCs have been classified into 3 categories:

(a) Those accepting public deposits,

(b) Those not accepting public deposits but involved in financial business

(c) Core investment companies with 90 per cent of their total assets as investments in the securities of their group/holding/subsidiary companies.

TYPES OF MF PROVIDERS

The different legal systems under which MF can be provided in India are:

1. Commercial Banks
2. Cooperative Banks
3. Regional Rural Banks (RRBs)
4. Local Area Banks (LABs)
5. Cooperative Societies, SHGs and Federations
6. Societies
7. Trusts
8. Section 25 (Not-for-Profit) companies
9. Non-Banking Finance Companies (NBFCs)
10. Organizations under Business Organiser/Business Correspondent guidelines of the Reserve Bank of India.

Among these, the MFIs can either take up the form of a Society, Trust, Co-operative Society, or NBFC. There is no centralized databank on the number of microfinance institutions that operate in the country however estimates have put it anywhere amid and 1,200. The overwhelming majority of MFIs are societies and trusts, followed by cooperative and section 25 companies. Among the large MFIs, most are NBFCs. It is gauged that top 20 MFIs account for 80% of the total group.

The specialized MFIs or micro-finance drive since the 1990‘s is a new chance of reaching the needy for their micro-credit needs. MFIs in India register themselves either as societies (under the Societies Registration Act, 1960), as trusts under the Trust Acts, as Non-Banking Financial Companies (NBFCs), or as Local Area Banks (LABs). All NBFCs requiring registration with the Reserve Bank of India should have a minimum investment of Rs.2 crore. NBFCs intending to accept public deposits have to satisfy stipulated norms and have to obtain specific authorization from the RBI. The issue of covering of NBFCs deposits by Deposit Insurance and Credit Guarantee Corporation (DICGC) was observed several times, and it was found neither required nor feasible to spread such coverage. Sa-Dhan, an association of MFIs has argued for a recent category of NBFCs, namely, Micro Finance Company with a minimum equity capital condition (capitalization) of Rs.25 lakh. These MFIs are designed to provide credit onlyutilization of savings is regulated to members and debtors.

ROLE OF MICRO FINANCE INSTITUTIONS

1.Poverty reduction tool:

Microfinance can be a serious element of an effective poverty reduction scheme.

Improved approach and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks well, build their assets gradually, and develop their microenterprises. Microfinance is only a method and not an end. The crucial goal is to minimise poverty.

2. Women Empowerment:

In rural areas women living below the poverty line are not able to realize their capacity. Microfinance programmes are currently being promoted as a key approach for simultaneously concentrating both poverty alleviation and women's empowerment. The self help groups (SHGs) of women as sources of microfinance have helped them to take part in development activities. The participation of women in SHGs made a significant impact on their empowerment both in social and economic aspects. It has been an acknowledged premise that women were not given enough opportunities to include themselves in the decision making process of the family as well as in the society. Thus, women were the main target groups under SHG programme. Microfinance can give an operative way to assist and empower poor women, who make up a significant proportion of the meagre and suffer disproportionately from hardship.

3. Development of the overall financial system:

Microfinance contributes to the advancement of the overall financial system through integration of monetary markets. Microfinance institutions (MFIs) can be small and medium enterprises at the heart of rural justifiable development. Their development positively correlates with rural business change.

4. Self Employment:

Microfinance is an experimental instrument in its overall strategies. Most of the meagre people manage to optimize resources over a time to develop their businesses. Financial services could enable the poor to leverage their initiative, accelerating the development of generating incomes, assets and economic security. However, traditional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. Therefore fundamental approach is to create the self employment by financing the rural meagre through financial institutes. Microfinance, thus, creates the hope and increases the self-esteem of the meagre by providing the opportunities to be employed.

5. SHG-bank connection programme:

Indian micro finance is lead by the effective approach Self-help Groups (SHGs). The approach is popularly known as SHG-connection linkage model. This model is the dominant model, started by the NABARD in the early 1990s. Today the SHG model also links the informal groups of women to the conventional system and it has the largest outreach to micro financial clients in the world. The SHG-bank relation programme was conceived with the objectives of additional credit delivery services for the un-reached poor, building joint trust and confidence amid the bankers and the poor and encouraging banking movement both on thrift as well as credit and enduring an easy and formal procedureof banking with the poor. The linkage programme combines the flexibility, sensitivity and awareness of the easy credit system with the technical and administrative proficiencies and monetary resources of the formal financial sector which rely heavily on mutual strength of the meagre, closeness of effective social mobilization functions contributing to an inclusive empowerment process.

TYPE OF RISK OF MFIS IN PRACTICES

- Management quality
- Corporate Governance
- Inappropriate regulation
- Efficiency of Staff
- Rate of Interest
- Competition
- Political Interference

- Transparency
- Foreign Exchange
- Fraud
- Reputation
- Liquidity
- Refinancing
- Limited funding

MICROFINANCE CHALLENGES

- The timing gap within the person's own cash flows.
- Lack of reliabilityand belief to enable exchanges with unknown people.
- Variations in actions due to seasonalityand uncertainty.
- Lack of organized avenues or products designed to address the saving needs of the rural masses.
- Increasing the transaction amount..
- Usage of comprehensive legal contract for controlling behaviour
- Rampant use of artificially propped up approaches that was to collapse when the subsidies were apartand the transaction costs became real.
- Contracts agreement categorisation.
- Lack of knowledge of the market and potential productivity, thus making the choice of business hard.
- Lack of potential book-keeping.
- Employment of too many relatives which increases socialstress to share benefits.
- Setting prices at random.
- Lack of adequateinvestment.
- High interest rates.
- Inventory and inflation accounting has not been undertaken.
- Credit policies that can slowly ruin their business (many customers cannot pay cash; on the other hand, suppliers are very strict towards women).
- More Risk factor is involved in micro-credit than conventional banking.

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MICROFINANCE LIMITATIONS

1. Burden of meetings:

Time consuming consultations, in particular in programmes based on group lending, and time consuming income generating activities without dropping of conventional responsibilities surge women's work and time burden.

2. New Forces:

By using societal capital, in-group lending/group collateral programmes, additional stresses and forces are introduced, which might increase vulnerability and reflect disempowerment.

3. Corroboration of traditional gender roles:

Micro finance helps women to perform traditional roles better and women thus remain trapped in low output sectors, not moving from the group of survival enterprises to micro-enterprises. There is signal of men withdrawing their contributions to certain types of household outlays.

4. Consuming more time:

Micro-finance is that deal which is too small for the lender to devote ample stretch and money to doing proper due persistence.

5. Investment- Profit Ratio:

As the investment is low the profits are also low.

6. Costly:

Consumers seldom if ever give lenders the full story on their situation and with a small amount at jeopardy; it does not make sense for lenders to spend a lot of money to check out the story. When bankers get burdened, they decide to stop lending and the next round of lending must be done by apprentices who have no idea what they are getting into.

7. Dependence on bankers:

To certain extent micro lending depends on an ever-increasing number of lenders in order to be successful

8. Ignore weaker section:

The incapability to influence the poorest of the poor is a problem that plagues most poverty alleviation programs. As Gresham's law reminds us, if the poor and non-poor are combined within a single program, the non-poor will always drive out the poor. To be operative, the delivery system must be designed and operated exclusively for the weaker.

9. Ignore destitute weaker section:

Some criticize that microfinance programs benefit the moderately weaker more than the destitute, and thus impact can differ by income group.

10. Concerned for their own family affiliates:

Most microfinance programs focus women (due to higher repayment rates), which may result in men requiring wife to get finances for them.

11. Strict procedures:

Use of harsh and powerful methods to push for repayment and excessive interest rate.

12. Short Government Role:

Apprehensions have been raised that the reliance on microfinance programs to aid the poor may result ina dropping of government and charitable assistance.

RECOMMENDATIONS

- Future research can be done to find the essentials of microfinance as a tool for economic growth and solve unequal distribution of revenue and wealth in the developing countries.
- Improvement in the monetary services industry can help the MFIs to support low income group people to adoptive entrepreneurship and take up self employment.
- The accounting practices, debt collection methods and interest percentage determination should be well regulated and governed appropriately by MFI.
- The most important debate to resolve is whether the primary goal of MFIs is to improve welfare or maintain financial sustainability.
- Making credit available to women does not naturally mean they have control over its use and over any income they might produce from small enterprises.
- In situations of chronic poverty it is more important to give saving services than to offer credit.
- A useful indicator of the tangible impact of microcredit schemes is the number of additional proposals and demands presented by local residents to public authorities.
- Moreover the focus should be on developing a distinguished micro finance sector where different type of organizations, NGO, MFIs and formal division banks all should have policies adapted to the needs of their specific target groups/institutional

roles and capacities and collaborate and work jointly to make a significant contribution to pro-poor advancement.

CONCLUSION

Rural development and poverty mitigation are commonly related to the issue of rural employment. Rural households livelihood tactics comprise several options, including farming and non-farm activities, local self-employment and wage employment, and movement. Microfinance has proven to be an effective and powerful technique for rural development and poverty reduction. Like many other development tools, it has suitably penetrated the poorer strata of society. The poorest form the vast majority of those without access to important health care and fundamental education; similarly, they are the majority of those without access to microfinance. Micro-finance is one of the ways of making the capacities of the poor and developing them to self-employment activities by providing monetary services like credit, savings and insurance. To provide micro-finance and other support facilities, MFIs should be able to sustain themselves for a long time. There are so many schemes for the development of poor in India. Creating self employmentavenues through micro finance is one way of attacking poverty and solving the problems of unemployment. In India, the small finance movement has almost assumed the shape of an industry, including thousands of NGOs/MFIs. During the last decade, the segment has witnessed a sharp growth with the emergence of a number of Micro Finance Institutions (MFIs) giving financial and non-financial supports to the poor in an effort to lift them out of scarcity. There are over 1,000 Indian MFIs. These institutions assume the anxiety of making available much needed micro credit to the poor section of the society for making the self employment The MFI channel of credit delivery, coupled with the national level plan of SHG-Bank Linkage, today, reaches out to millions of weaker across the country.

In India micro-finance has succeeded with compensation rates up to 98% reported all across the country (from the states like AP, Tamil Nadu, Karnataka, Kerala, West Bengal and Orissa etc.) This tells us that micro credit has certainly has the ability to reduce poverty by a great margin.

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