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Management

A PORTRAIT STUDY OF MICROFINANCE INSTITUTIONS - INCLUSIVE GROWTH

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ABSTRACT Inclusive development is one of the critical determinants of national growth and its importance increases manifold in a developing and vast country like India. The poor living in villages represent the country's vulnerability, arising out of their unequal access to financial literacy, products and services. Micro finance is to supply micro credit to people living in utter poverty and has no reach to the conservative, formal financial products. Micro finance focused on availing the credit in a standard manner. Micro financial schemes plays vital role in increasing women's participation in economic activities and decision making. In this research paper an effort is made to investigate the role of microfinance in rural development especially through Micro financial schemes and other supportive independent factors which are major influencing part of financial inclusion. This study is an empirical study which aims to find out the role and responsibilities of microfinance in rural development.

KEYWORDS : Inclusive, Vulnerability, Conservative and Financial Literacy etc.

INTRODUCTION:

Microfinance is only "micro" because the assets of those living in poverty are micro. The term microfinance, originally meant to comprise financial intermediation between savers and borrowers, was created only in 1990. Microfinance has also come to be referred to as small-scale financial services provided to people who work in agriculture, fishing and herding; who operate small or micro-enterprises; who provides services; who work for wages or commission; and other individuals and groups at the local levels of developing countries both rural and urban.

The MFI is leaving enormous economic and social impact. Microfinance provides both savings and loan facilities. An MFI is likely to provide the much needed funds to the potential entrepreneurs of the rural India. Also it is anticipated that the people would become socially more advanced as they come into touch with the outside world. In order to be sustainable, microfinance lending should be fixed on market principles because large scale lending cannot be completed through financial support.

Two Categories of Microfinance

1.Welfarist institutions:

The main interest of such institutions is on improving the social well being of participants, "with less interest in banking than in using credit as a means to effect fundamental social and economic changes for borrowers and communities. Welfarists differ from one institution to another; they generally provide "services and training related to nutrition, health, literacy, group formation and client training."

2.Institutionalists:

The focus here is on: creating financial institutions to serve clients who are either not served or under-served by the formal financial system leading to achievement of scale (number of clients) over outreach (levels of poverty) and relegates client impact to the backburner. The main focus of such institutions is that of sustainability and belief that as long as sustainable financial services is provided, the entrepreneurial abilities of individuals is sufficient to bring about development.

METHODOLOGY:

1.Need of the Study:

Micro Finance initiatives are the major impacts positively on households' credit, entrepreneurial activities and modernization of small enterprises, some studies argued that policy initiatives doe have weak influence on inclusive growth nevertheless, their observations are overwhelmed by other scholars that suggest strong relationship.

2.Objective of the Study:

From the reviewed literature on the relationship between need of micro finance and SMEs development in developed countries, emerging countries and Indian economy, there is almost unanimous agreement among studies.

3.Source of Data:

The Present Study covers the overview of micro finance initiatives and successive rate with respect to Indian Context, through the observations of Review of Literature in a brief manner.

DISCUSSION ON CONTEXT:

Microfinance Institutions Helps in -

a) Empowerment of rural poor by improving their access to the formal credit system through various Microfinance innovations in a cost effective and sustainable manner.
b) Provision of various financial services like savings, credit, money transfers, insurance etc. in small doses for the poor to enable them to raise their income levels and improve living.
c) Eradicating Poverty and unemployment.
d) Promoting Children's Education.
e) Improving Health Outcomes for Women and Children
f) Empowering Women

Some critical issues for microfinance organizations are as follows:

Sustainability:

MFIs are usually established to fulfill a mission – of reaching credit and financial services to the poor who are otherwise unreached by mainstream FIs. Thus MFI try to simultaneously achieve the twin goal of access (by the poor) and sustainability (of the institution or its micro-credit portfolio). In that sense, India is perhaps the largest emerging market for microfinance services. The total outreach of the existing specialized microfinance service providers is quite limited. Starting with credit first, we see that there is no authoritative countrywide estimate of microcredit disbursed or clients served.

Lack of Capital:

The next part of concern for MFIs, which is on the expansion path, is that they face a scarcity of owned funds. This is a critical constraint in their being able to scale up. Many of the MFIs are socially oriented institutions and do not have adequate access to financial capital. As a result they have high debt equity ratios.

Borrowings:

In comparison with earlier years, MFIs are now finding it relatively easier to raise loan funds from banks. This change came after the year 2000, when RBI allowed banks to lend to MFIs and treat such lending as part of their priority sector funding obligations. Private sector banks have designed innovative products such as the Bank Partnership Model to fund MFIs and have started viewing the sector as a good business proposition.

Capacity of MFIs:

It is now accepted that MFIs has both social and commercial dimensions. Since the sustainability of MFIs and their clients complement each other, it follows that building up the capacities of the

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MFIs and their primary stakeholders. These are preconditions for the successful delivery of flexible, client responsive and innovative microfinance services to the poor.

Groups Organised by Microfinance Institutions in India

Joint Liability Group (JLG)

This is usually an informal group that consists of 4-10 individuals who seek loans against mutual guarantee. The loans are usually taken for agricultural purposes or associated activities. Farmers, rural workers, and tenants fall into this category of borrowers. Each individual in a JLG is equally responsible for the loan repayment in a timely manner. This institution does not need any financial administration, as it is simple in nature.

Self Help Group (SHG)

A Self Help Group is a group of individuals with similar socio-economic backgrounds. These small entrepreneurs come together for a short duration and create a common fund for their business needs. These groups are classified as non-profit organisations. The group takes care of the debt recovery. There is no requirement of a collateral in this kind of group lending. The interest rates are generally low as well. Several banks have had tie-ups with SHGs with a vision to improve financial inclusion in the rural parts of the country.

Grameen Model Bank

The Grameen Model was the brainchild of Nobel Laureate Prof. Muhammad Yunus in Bangladesh in the 1970s. It has inspired the creation of Regional Rural Banks (RRBs) in India. The primary motive of this system is the end-to-end development of the rural economy. However, in India, SHGs have been more successful as MFIs when compared to Grameen Banks.

Rural Cooperatives

Rural Cooperatives were established in India at the time of Indian independence. The resources of poor people were pooled in and financial services were provided from this fund. However, these systems had complex monitoring structures and were beneficial only to the creditworthy borrowers in rural India. Hence, this system did not find the success that it sought initially.

MFIs struggling in India-the background score

"Selection of investors is critical for survival of MFIs. If you allow investors with a mere aim of achieving high returns to come in, you are in for trouble. History has taught this many a time," says Chandra Shekhar Ghosh, managing director of Bandhan Bank, which was at the top in its earlier avatar as MFI and was backed by World Bank's private investment arm, International Finance Corporation, since 2011. Micro lenders also face policy barriers with their margin capped at 10%, while Equitas Holdings or Ujjivan Financial, which converted into small finance banks shedding their micro lender status, theoretically can lend at higher rates by virtue of being bank.

Microfinance Institutions emerged to fill a gap between money lenders and borrowers. Banks were not lending to the poor. My larger goal was to bring the poor into the purview of the mainstream, as credit-worthy customers for the banking sector. MFIs did that first by borrowing from banks, then securitising loans to banks, then serving as business correspondents for banks. The logical next step was to become a bank or merge with a bank. The RBI took a bold step by not only creating small finance banks (SFBs) but also pay. The business model -- propounded by Nobel laureate Mohammad Yunus and successfully implemented in India by Akula and Chandra Shekhar Ghosh -- still remains profitable, but the vagaries of regulations and populist politics like farm loan waivers keep them on the edge.

The tiny size of these institutions makes them vulnerable to even a small adverse development as their finances remain fragile. Unlike banks, which have multi products and an assured deposit base, micro lenders are dependent on markets for funds, which turn hostile at the smallest of events that affect business.

CONCLUSION:

Microfinance institutions have been gaining popularity in the recent years and are now considered as effective tools for alleviating poverty. Although microfinance institutions have been profitable in India, there have been regulations and populist politics that have proved to be unfavorable to them. The small size of these institutions implies that they will be affected by small adverse developments resulting in fragile finances. Several microfinance institutions have converted into small finance banks. This implies that they can lend at higher interest rates. Moreover, they will have access to deposits that are low-cost. Banks are now some of the largest providers of micro-finance as per MFIN reports. MFI-turned banks are still the major providers of micro finance.

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