



MICROFINANCE STANDARDS AND PRINCIPLES IN INDIA

Commerce

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ABSTRACT

Microfinance is a category of financial services targeting individuals and small businesses who lack access to conventional banking and related services. Microfinance includes microcredit, the provision of small loans to poor clients; savings and checking accounts; microinsurance; and payment systems, among other services. Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient. ID Ghana is an example of a microfinance institution. Microfinance initially had a limited definition: the provision of microloans to poor entrepreneurs and small businesses lacking access to credit. The two main mechanisms for the delivery of financial services to such clients were: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Over time, microfinance has emerged as a larger movement whose object is: "a world in which as everyone, especially the poor and socially marginalized people and households have access to a wide range of affordable, high quality financial products and services, including not just credit but also savings, insurance, payment services, and fund transfers." Proponents of microfinance often claim that such access will help poor people out of poverty, including participants in the Microcredit Summit Campaign. For many, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses; for others it is a way for the poor to manage their finances more effectively and take advantage of economic opportunities while managing the risks. Critics often point to some of the ills of micro-credit that can create indebtedness. Many studies have tried to assess its impacts.

KEYWORDS

INTRODUCTION

Poor people borrow from informal moneylenders and save with informal collectors. They receive loans and grants from charities. They buy insurance from state-owned companies. They receive funds transfers through formal or informal remittance networks. It is not easy to distinguish microfinance from similar activities. It could be claimed that a government that orders state banks to open deposit accounts for poor consumers, or a moneylender that engages in usury, or a charity that runs a heifer pool are engaged in microfinance. Ensuring financial services to poor people is best done by expanding the number of financial institutions available to them, as well as by strengthening the capacity of those institutions. In recent years there has also been increasing emphasis on expanding the diversity of institutions, since different institutions serve different needs. Some principles that summarize a century and a half of development practice were encapsulated in 2004 by CGAP and endorsed by the Group of Eight leaders at the G8 Summit on 10 June 2004:

1. Poor people need not just loans but also savings, insurance and money transfer services.
2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
3. "Microfinance can pay for itself." Subsidies from donors and government are scarce and uncertain and so, to reach large numbers of poor people, microfinance must pay for itself.
4. Microfinance means building permanent local institutions.
5. Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.
6. "The job of government is to enable financial services, not to provide them."
7. "Donor funds should complement private capital, not compete with it."
8. "The key bottleneck is the shortage of strong institutions and managers." Donors should focus on capacity building.
9. Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
10. Microfinance institutions should measure and disclose their performance – both financially and socially.

Microfinance is considered a tool for socio-economic development, and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan, should be recipients of charity. Others are

best served by financial institutions.

New research in the area of microfinance call for better understanding of the microfinance ecosystem so that the microfinance institutions and other facilitators can formulate sustainable strategies that will help create social benefits through better service delivery to the low-income population. In developing economies, and particularly in rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. This is often the case when people need the services money can provide but do not have dispensable funds required for those services. This forces them to revert to other means of acquiring the funds. In their book, *The Poor and Their Money*, Stuart Rutherford and Sukhwinder Arora cite several types of needs:

1. *Lifecycle Needs*: such as weddings, funerals, childbirth, education, home building, holidays, festivals, widowhood and old age
2. *Personal Emergencies*: such as sickness, injury, unemployment, theft, harassment or death
3. *Disasters*: such as wildfires, floods, cyclones and man-made events like war or bulldozing of dwellings
4. *Investment Opportunities*: expanding a business, buying land or equipment, improving housing, securing a job, etc.

People find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country, but typically include livestock, grains, jewelry and precious metals. As Marguerite S. Robinson describes in his book, *The Micro Finance Revolution: Sustainable Finance for the Poor*, the 1980s demonstrated that "micro finance could provide large-scale outreach profitably", and in the 1990s, "micro finance began to develop as an industry". In the 2000s, the microfinance industry's objective was to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty. While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand. The obstacles or challenges in building a sound commercial microfinance industry include:

1. Inappropriate donor subsidies
2. Poor regulation and supervision of deposit-taking microfinance institutions (MFIs)
3. Few MFIs that meet the needs for savings, remittances or insurance
4. Limited management capacity in MFIs
5. Institutional inefficiencies

6. Need for more dissemination and adoption of rural, agricultural microfinance methodologies

7. Members' lack of collateral to secure a loan

Microfinance is the proper tool to reduce income inequality, allowing citizens from lower socio-economical classes to participate in the economy. Moreover, its involvement has shown to lead to a downward trend in income inequality.

Microfinance provides women around the world with financial and non-financial services, especially in the most rural areas that do not have access to traditional banking and other basic financial infrastructure. It creates opportunities for women to start-up and build their businesses using their own skills and talents.

Utilizing savings, credit, and microinsurance, Microfinance helps families create income-generating activities and better cope with risk. Women particularly benefit from microfinance as many microfinance institutions (MFIs) target female clients. Most microfinance institutions (MFIs) partner with other organizations like Water.org and Habitat for Humanity to provide additional services for their clients.

Microfinance generally agree that women should be the primary focus of service delivery. Evidence shows that they are less likely to default on their loans than men. Industry data from 2006 for 704 MFIs reaching 52 million borrowers includes MFIs using the solidarity lending methodology (99.3% female clients) and MFIs using individual lending (51% female clients). The delinquency rate for solidarity lending was 0.9% after 30 days (individual lending—3.1%), while 0.3% of loans were written off (individual lending—0.9%). Because operating margins become tighter the smaller the loans delivered, many MFIs consider the risk of lending to men to be too high. This focus on women is questioned sometimes, however a recent study of microentrepreneurs from Sri Lanka published by the World Bank found that the return on capital for male-owned businesses (half of the sample) averaged 11%, whereas the return for women-owned businesses was 0% or slightly negative.

Microfinance's emphasis on female-oriented lending is the subject of controversy, as it is claimed that microfinance improves the status of women through an alleviation of poverty. It is argued that by providing women with initial capital, they will be able to support themselves independent of men, in a manner which would encourage sustainable growth of enterprise and eventual self-sufficiency. This claim has yet to be proven in any substantial form. Moreover, the attraction of women as a potential investment base is precisely because they are constrained by socio-cultural norms regarding such concepts of obedience, familial duty, household maintenance and passivity. The result of these norms is that while micro-lending may enable women to improve their daily subsistence to a more steady pace, they will not be able to engage in market-oriented business practice beyond a limited scope of low-skilled, low-earning, informal work. Part of this is a lack of permissivity in the society; part a reflection of the added burdens of household maintenance that women shoulder alone as a result of microfinancial empowerment; and part a lack of training and education surrounding gendered conceptions of economics. In particular, the shift in norms such that women continue to be responsible for all the domestic private sphere labour as well as undertaking public economic support for their families, independent of male aid increases rather than decreases burdens on already limited persons.

Summary

Money is required for every single step of Business Life-Cycle, Micro Finance is about the Finance to satisfy the need for small entrepreneurs to fulfill or to set up a business at a small Scale and give a source of livelihood to people from poor villages, and increase the standard to live life in an optimistic manner. Franciscan monks founded the community-oriented pawnshops in the 15th century, The history of micro financing can be traced back as far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty The founders of the European credit union movement in the 19th century(Spooner, Friedrich Wilhelm Raiffeisen) founded the first cooperative lending banks to support farmers in rural Germany. The birth of "modern micro-finance" is said to have occurred in the mid 1970s in rural Bangladesh when the founders of the "microcredit" movement in the 1970s as Dr. Muhammad Yunus (professor of economics at the University of Chittagong) and Al

Whittaker, have tested practices and built institutions designed to bring the kinds of opportunities and risk- management tools that financial services can provide to the doorsteps of poor people.

Key : The key things that a government can do for microfinance are to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidized, high-delinquency loan programs

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