Research Paper Commerce

Management of Micro Finance in India

* Mr P. B Reddy ** Mrs. Chennamaraju Shalini
*** Dr. Morusu Siva Sankar

* Research scholar dept of management S V UNIVRTSITY, Tirupati 517502

** Assistant professor, Bharathi Institute of Business Management Warnngal

*** Academic Consultant, Dept. of Commerce, S.V. University, Tirupati 517502

ABSTRACT

Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these client categories. The two main mechanisms for the delivery of financial services to such clients are
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.
In developing economies and particularly in the 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. Almost by definition, poor people have very little money. But circumstances often arise in their lives in which they need money or the things money can buy.

Keywords : small finance leading with largest relationship

Battered by the AP MFI crisis, SKS Microfinance Limited, India's sole listed microfinance company said it had roped in one of the leading global marketing strategists Jack Trout to revamp its image.

"We have a strong bonding with our members given our close-to-consumer model and the bond has become stronger during the recent challenging times on account of the process improvements implemented by the company. Despite this, it is imperative that we revisit the brand propositions in order to further increase our brand equity among our members and other key stakeholders," SKS Microfinance Limited managing director and chief executive officer MR Rao said.

"We are back at the threshold of steady growth post our recent turnaround, and require expert counsel in ending the dichotomies/ ambiguities related to branding and positioning," SKS Microfinance Limited chief financial officer S Dilli Raj said. Small Industries Development Bank of India (SIDBI) today launched India Microfinance Platform, a portal which gives comprehensive information about microfinance players in the country.The platform lauched with World Bank assistance has data about each and every microfinance firm working right up to district level, SIDBI Chairman and Managing Director Sushil Muhnot said after launching the website

Sources Times of economic times Jun 28, 2013

Microfinance Institutions Network (MFIN), the industry association of micro finance companies which recently released the sixth issue of the MicroMeter on the status of the Indian microfinance industry has said that the states of Andhra Pradesh, West Bengal, Tamil Nadu, Karnataka and Maharashtra account for 60% of the clients and 59% of the portfolios of MFIs.

"As institutions that primarily provide micro-credit to low income households, it is heartening to see that the GLP (gross loan portfolio) growth has been fairly broad based with 70% of the MFIs showing an increase in GLP. Significant increase in lending has been observed in states such as West Bengal, Tamil Nadu, Bihar, Assam and Uttar Pradesh," Alok Prasad, chief executive officer, MFIN said.

Sources The times of India Sep 14, 2013

In Stuart Rutherford's recent book The Poor and Their Money, he cites several types of needs:

Lifecycle Needs: such as weddings, funerals, childbirth, education, homebuilding, widowhood, old age.

Personal Emergencies: such as sickness, injury, unemployment, theft, harassment or death.

Disasters: such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings.

Investment Opportunities: expanding a business, buying land or equipment, improving housing, securing a job (which often requires paying a large bribe), etc.

Poor 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.

Current scale of microfinance operation
No systematic effort to map the distribution of microfinance has yet been undertaken. A useful recent benchmark was established by an analysis of 'alternative financial institutions' in the developing world in 2004. The authors counted approximately 665 million client accounts at over 3,000 institutions that are serving people who are poorer than those served by the commercial banks. Of these accounts, 120 million were with institutions normally understood to practice microfinance. Reflecting the diverse historical roots of the movement, however, they also included postal savings banks (318 million accounts), state agricultural and development banks (172

million accounts), financial cooperatives and credit unions (35 million accounts) and specialized rural banks (19 million accounts).

Regionally the highest concentration of these accounts was in India (188 million accounts representing 18% of the total national population). The lowest concentrations were in Latin American and the Caribbean (14 million accounts representing 3% of the total population) and Africa (27 million accounts representing 4% of the total population, with the highest rate of penetration in West Africa, and the highest growth rate in Eastern and Southern Africa). Considering that most bank clients in the developed world need several active accounts to keep their affairs in order, these figures indicate that the task the microfinance movement has set for itself is still very far from finished.

By type of service "savings accounts in alternative finance institutions outnumber loans by about four to one. This is a worldwide pattern that does not vary much by region."

An important source of detailed data on selected microfinance institutions is the Micro Banking Bulletin, which is published by Microfinance Information Exchange. At the end of 2009 it was tracking 1,084 MFIs that were serving 74 million borrowers ($38 billion in outstanding loans) and 67 million savers ($23 billion in deposits)

Help can come in the form of more and better qualified staff, thus higher education is needed for microfinance institutions. This has begun in some universities, as Oliver Schmidt describes. Mind the management gap

The micro credit era that began in the 1970s has lost its momentum, to be replaced by a 'financial systems' approach. While micro credit achieved a great deal, especially in urban and near-urban areas and with entrepreneurial families, its progress in delivering financial services in less densely populated rural areas has been slow.

The new financial systems approach pragmatically acknowledges the richness of centuries of microfinance history and the immense diversity of institutions serving poor people in developing world today. It is also rooted in an increasing awareness of diversity of the financial service needs of the world's poorest people, and the diverse settings in which they live and work.

Brigit Helms in her book 'Access for All: Building Inclusive Financial Systems', distinguishes between four general categories of microfinance providers, and argues for a pro-active strategy of engagement with all of them to help them achieve the goals of the microfinance movement

Informal financial service providers
These include moneylenders, pawnbrokers, savings collectors, money-guards, ROSCAs, ASCAs and input supply shops. Because they know each other well and live in the same community, they understand each other's financial circumstances and can offer very flexible, convenient and fast services. These services can also be costly and the choice of financial products limited and very short-term. Informal services that involve savings are also risky; many people lose their money.

Member-owned organizations
These include self-help groups, credit unions, and a variety of hybrid organizations like 'financial service associations' and CVECAs. Like their informal cousins, they are generally small and local, which means they have access to good knowledge about each others' financial circumstances and can offer convenience and flexibility. Since they are managed by poor people, their costs of operation are low. However, these providers may have little financial skill and can run into trouble when the economy turns down or their operations become too complex. Unless they are effectively regulated and supervised, they can be 'captured' by one or two influential leaders, and the members can lose their money.

NGOs
The Microcredit Summit Campaign counted 3,316 of these MFIs and NGOs lending to about 133 million clients by the end of 2006.[25] Led by Grameen Bank and BRAC in Bangladesh, Prodem in Bolivia, and FINCA International, headquartered in Washington, DC, these NGOs have spread around the developing world in the past three decades; others, like the Gamelan Council, address larger regions. They have proven very innovative, pioneering banking techniques like solidarity lending, village banking and mobile banking that have overcome barriers to serving poor populations. However, with boards that don't necessarily represent either their capital or their customers, their governance structures can be fragile, and they can become overly dependent on external donors.

Formal financial institutions
In addition to commercial banks, these include state banks, agricultural development banks, savings banks, rural banks and non-bank financial institutions. They are regulated and supervised, offer a wider range of financial services, and control a branch network that can extend across the country and internationally. However, they have proved reluctant to adopt social missions, and due to their high costs of operation, often can't deliver services to poor or remote populations. The increasing use of alternative data in credit scoring, such as trade credit is increasing commercial banks' interest in microfinance.

With appropriate regulation and supervision, each of these institutional types can bring leverage to solving the microfinance problem. For example, efforts are being made to link self-help groups to commercial banks, to network member-owned organizations together to achieve economies of scale and scope, and to support efforts by commercial banks to 'down-scale' by integrating mobile banking and e-payment technologies into their extensive branch networks.

Microfinance Models In India :-
In India, the beginning of microfinance movement could be traced to Self Help Group (SHG) – Bank Linkage Programme (SBLP) started as a pilot project in 1992 by NABARD. This programme proved to be very successful and has also developed as the most popular model of microfinance in India.
r

In India, the institutions which provides microfinance services includes:-NABARD Small Industries Development Bank of India <SIDBI), RashtriyaMahilaKosh, Commercial Banks, Regional Rural Banks, Co.operative Banks and Non Banking Financial Companies (NBFCs).

Microfinance services are provided mainly by two models :- Self Help Group - Bank Linkage Programme (SBLP) Model and Micro-Finance Institutions Model (MFI). These both together have about 7 crore clients.

1. SHG - Bank Linkage Programme (SBLP)
A Self Help Group (SHG) is a small group of 10 to 20 persons of rural poor who come together to mutually contributeto common fund for meeting their emergency needs. SHG - Bank Linkage Programme was introduced by NABARD in 1992. Under this programme three different models have emerged :-

a) Model I: - SHGs promoted, guided and financed by banks.
b) Model II :- SHGs promoted by NGOs / government agencies andfinanced by banks.
c) Model III :- SHGs promoted by NGOs and financed by banks under NGOs / formal agencies as financial intermediaries.

REFERENCES

1. SBH Banking Groups published by SBI Groups (2006). | 2. The Hindu daily Newspaper business P.17 date: July 19th 2007. | 3. The business line Hindu Groups | 4. The Hindu daily Newspaper business, date: September 1st 2007. | 5. Times of economic times Jun 28, 2013 | 6. Sources The times of India Sep 14, 2013 | 7 .Dr. C Venkateswarlu Dr. Morusu Siva Sankar Paripex - Indian Journal Of Research May 2013 | | Websites: | 1. Micro finance evaluation | 2. Micro finance structure | 3. Micro finance implementation | 4. www.wekipediajournals | |