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Impact of Micro Finance and Opportunities To Micro Finance Institutions in India

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KEYWORDS

AN OVERVIEW

Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. 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.

For some, microfinance is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers.". Many of those who promote microfinance generally believe that such access will help poor people out of poverty,.

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Microcredit is one of the aspects of microfinance and the two are often confused. Critics may attack microcredit while referring to it indiscriminately as either 'microcredit' or 'microfinance'. Due to the broad range of microfinance services, it is difficult to assess impact, and very few studies have tried to assess its full impact. Proponents often claim that microfinance lifts people out of poverty, but the evidence is mixed. What it does do, however, is to enhance financial inclusion.

CONCEPT OF MICRO FINANCE

In early 1980's, the existing banking policies, procedures and systems were not suited to meet the requirements of poor. For borrowings poor people usually resort to unorganised sector. NABARD recommended that alternative policies, systems and procedures should be put in use to save the poor from the clutches of moneylenders. Thus microfinance was introduced in banking sector.

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households and their micro-enterprises. Microfinance is defined as "Financial Services (savings, insurance, fund, credit etc.) provided to poor and low income clients so as to help them raise their income, thereby improving their standard of living".

Micro-financing is regarded as a tool for socio-economic up-liftment in a developing country like India. It is expected to play a significant role in poverty alleviation and development. Mohammed Yunus was awarded the Noble Prize for application of the concept of microfinance, with setting up of the Grameen Bank in Bangladesh. Micro credit and microfinance are different. Micro credit is a small amount of money, given as a loan by a bank or any legally registered institution, whereas, Microfinance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans etc.

ADVANTAGES OF MICRO FINANCE

1. Access Banks simply won't extend loans to those with little or no assets, and generally don't engage in the small size of loans typically associated with micro financing. Micro financing is based on the philosophy that even small amounts of credit can help end the cycle of poverty.

2. Better loan repayment rates Microfinance tends to target women borrowers, who are statistically less likely to default on their loans than men. So these loans help empower women, and they are often safer investments for those loaning the funds.

3. Extending education Families receiving micro financing are less likely to pull their children out of school for economic reasons.

4. Improved health and welfare Micro financing can lead to improved access to clean water and better sanitation while also providing better access to health care.

5. Sustainability Even a small working capital loan of $100 can be enough to launch a small business in a developing country that could help the benefactor pull themselves and their family out of poverty. Watch Stalemate's story of starting a rice-selling business in Sierra Leone.

6. Job creation Micro financing can help create new employment opportunities, which has a beneficial impact on the local economy.

G.8 SUMMIT

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 June 10, 2004:

Poor people need not just loans but also savings, insurance and money transfer services.

Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.

"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.

Microfinance means building permanent local institutions.

Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.

of government is to enable financial services, not to provide them."

"Donor funds should complement private capital, not compete with it."

"The key bottleneck is the shortage of strong institutions and managers." Donors should focus on capacity building.

Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.

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.

FEATURES OF MICROFINANCE

- It is an essential part of rural finance.
- It deals in small loans.
- It basically caters to the poor households.
- It is one of the most effective and warranted Poverty Alleviation Strategies.
- It supports women participation in electronic activity.
- It provides an incentive to grab the self employment opportunities.
- It is more service-oriented and less profit oriented.
- It is meant to assist small entrepreneur and producers.
- Poor borrowers are rarely defaulters in repayment of loans as they are simple and God-fearing.
- India needs to establish several Microfinance Institutions.

ROLE OF MICRO FINANCE IN ECONOMIC GROWTH

Women Empowerment

Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.

Economic Growth

Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.

Development Of Skills

Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.

COMPARATIVE ANALYSIS OF MICRO FINANCE SERVICES OFEERED TO THE POOR:

PARAMETER	MONEY LENDER	COMMERCIAL BANKS	GOVT. SPONDORED PROGRAMS	FINANCIAL PRODUCTS OF MFIs
Ease of Access	High	Low	Low	High
Transaction Cost of Access	Very Short	Very High	Very High	Low- Medium
Lead Time for Loans	Low	Extremely Long	Extremely Long	Short
Repayment Terms	Fixed and Rigid	Fixed and Easy	Fixed and Easy	Flexible
Interest Rates	Exorbitantly High	Low	Low and subsidised	Reasonable
Incentives	None	None	None	Repeat and larger loans
Repeat Borrowing	Possible	Possible but not likely	Possible but not likely	Stream of credit is assured
Loan Access Procedures	Very Quick	Extremely Time Consuming and Complicated	Extremely Time Consuming and Complicated	Simple and Quick
Loan Application Procedures	Informal but Exploitative	Exhaustive and complex	Exhaustive and complex	Simple and informal
Collateral and Demand Promissory Note	Mandatory	Required but hypothecation of asset may suffice	Not Required although a charge on the asset becomes automatic	Not required social collateral is used for physical collateral.

www.slide.share.net,Deepak tiwari Ravichandra..G(Micro Finance in India)

GROWTH OF MICRO FINANCE IN INDIA

Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in 1976. Microfinance in India started in the early 1980s with small efforts at forming informal self-help groups (SHG) to provide access to much-needed savings and credit services to the marginal population more importantly in rural areas.

From this small beginning, the microfinance sector has grown significantly in the past decades. National bodies like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are devoting significant time and financial resources to Microfinance sector.

The World Bank has called South Asia the "cradle of microfinance." Statistics indicate that some 45% of all the people in the world who use microfinance services are living in South Asia. However, the overall percentage of the poor and vulnerable people with access to financial services remains small, amounting to less than 20 % of poor households in India.

With financial inclusion emerging as a major policy objective in the country, Microfinance has occupied centre stage as a promising conduit for extending financial services to unbanked sections of population The microfinance sector has emerged as one of the most promising tool for ameliorating poverty in India. The microfinance in India involves forming self help groups, usually a group of 5 to 20 persons and providing them credit through bank linkage. Therefore in India, it is often called as SHG Bank linkage programme.

NGOs in microfinance sector, also called as microfinance institution provide that linkage between banks and self help groups. With the help of credit and guidance from NGOs, the SHGs strive to come out of the quagmire of poverty. Another advantage found in Indian SHG movement is that most of the beneficiaries are women and thus it is becoming an important instrument of bridging the gulf of gender inequality.

With the growth of microfinance industry many small and large Microfinance Institutions (MFI) had emerged in India and the largest MFI is SKS Microfinance Ltd which is also listed in the stock market, only such institution in India.

The microfinance sector is having a healthy growth rate and it is currently a Rs.20,000 Cr. industry. The SHG-Bank Linkage Programme and the Microfinance Institutions put together achieved a growth in their customer base by about 10.8 percent. The combined borrowing customer base increased to 93.9 million from 86.3million in the previous year.

Despite of healthy growth over the years, there number of concerns have emerged related to the sector, like regulation, transparent pricing, low financial literacy etc. In addition to these concerns there are a few emerging concerns like cluster formation, insufficient funds, multiple lending and over-indebtedness which are arising because of the increasing competition among the MFIs.

On a national level there has been a spate of actions taken to strengthen the regulation of MF sector including, enactment of microfinance regulation bill by the Government of Andhra Pradesh, implementation of sector-specific regulation by Reserve Bank of India and most recently, release of Draft Microfinance Institutions (development and regulation) Bill.RBI credit policy capped household income at Rs. 120000/- and credit limit at Rs. 50000 for all MFI customers. This is to better target the beneficiary population to the bottom quartile population.

Major challenges faced by microfinance in India are challenges related to access to finance, governance and management, demand for low interest rates and managing competition. It further adds that:

- The single biggest challenge for microfinance lies in the area of training and capacity development;
- On the supply side, there is a lack of service providers and comprehensive, integrated and relevant training modules
- Limited reach in the northern and eastern parts of the country
- Range of products tends to be limited to simple credit offerings
- On the demand side, not enough attention is being paid to training for senior management
- Absence of social audit in many case

MICRO FINANCE OPPORTUNITIES IN INDIA

Microfinance has a profitable banking opportunity in India with over 11.36 million poor clients, 26 per cent of the total outreach of microfinance institutions of the world, meeting their financial needs from a range of organisations, including community-based microfinance networks and cooperatives. But importantly, there are 60 million potential clients of which 40-45 million are poor rural households. However, the major problem is to ensure a smooth flow of adequate amount of on-lending funds.

The Indian economy, with emphasis on potential in the microfinance sector and the difficulties faced by this sector are being discussed by the financial experts at a three-day international conference on `Microfinance India 2008'. The microfinance is assisting 12 million self-help groups (SHG) in rural areas, mostly in the four southern States.

There is also a large missing loan size that needs to be supplied by the microfinance institutions. Thus, the scope to spread microfinance is clearly evident and the current indicators are favourable, Nancy Barry, President of Women's World Banking, said in her remarks. "India's bank infrastructure is in place and the economy looks robust with interest rates having been liberalised.

The sharing of global experiences of private and public retail banks around the world will help India develop a strong formal and informal microfinance sector," she said. Not sounding too happy with assessment of funds from both National bank of Agricultural Development (Nabard) and Small Industries Development Bank of India (SIDBI), David S. Gibbons, founder and executive chairman of CASHPOR Financial and Technical Services said while Nabard was not doing its job, SIDBI's conditions were not suitable for microfinance institutions.

CONCLUSION

By the extensive spread of microfinance, there is a growing concern about the sustainable development of microfinance institutions. Empirical researches provide convincing evidences for this issue. We firmly believe that an integrated approach to servicing clients can enhance microfinance's effectiveness as a poverty alleviation tool. The benefits of this approach are two fold.First,by acting as a platform to deliver important social services along with credit and financial services, MFIs can contribute to greater sustainability at the client level. Integrating microfinance with social services such as health, education and natural disaster relief or prevention addresses the other contributing factors to poverty beyond the economic factor of today's global issues can be solved with programs such as microfinance.. It can take a

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