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Microfinance An Overview

A. Kavitha Anandhi
Asst. Professor, Department of Commerce,
St. Anne's Arts and Science College,
Madavaram, Chennai- 110

ABSTRACT

Microfinance is a type of banking service provided to unemployed or low-income individuals or groups or niche women groups who otherwise would have no other access to financial services. Muhammad Yunus pioneered microfinance in Bangladesh in 1976 for helping poor people, especially women, short-term loans to enhance their business activities. The main motive of this banking service is to allow entrepreneurs to have a savings account with no minimum balance. In 2006, the Nobel Peace Prize was awarded to both Yunus and the Grameen Bank for their efforts in developing the microfinance system. Microfinance helped to reduce income inequality and allowed the people of the country to participate in the economy. Moreover, this leads to a downward trend in income inequality. In India, the National Bank for Agriculture and Rural Development (NABARD) looked at several models for offering financial services to the unbanked, especially women, and came with the model called Self-help Groups (SHGs) which is a type of microfinance. In this approach, a small group of women are able to form their own business and earn money for their poverty. Recently the Reserve Bank of India has raised the micro loan limits to ensure higher flow of funds to the economically weaker section as their role in the economy has grown over the years with the government's inclusive agenda. The RBI has implemented this because MFIs in delivering credit to those in the bottom of the economic pyramid and enable them to play their assigned role in a growing economy.

KEYWORDS: NABARD, Self-help Groups, Grameen Bank, Reserve Bank of India

1. INTRODUCTION

Microfinance is a type of banking service provided to unemployed or low-income individuals or groups especially women who otherwise would have no other access to financial services. It allows people to take on reasonable small business loans safely without any pledge, and in a manner that is consistent with ethical lending practices. Microfinance is often presented as something Muhammad Yunus started in Bangladesh in 1976. Yunus 'invented' microfinance and that microfinance is about giving poor people, especially women, short-term loans to enhance their business activities.

The term microfinance encompasses microloans, micro-savings, and micro insurance. Many of the recipients are in developing countries, and could otherwise not obtain a traditional loan. It helps the financially marginalized by providing them with the necessary capital to start a business and work toward financial independence. These loans are significant because they are given even though the borrower has no collateral. However, the interest rates for these microloans are often very high due to the risk of default.

Microfinance institutions provide small loans and other resources to business owners and entrepreneurs to help them get their businesses off the ground. They allow entrepreneurs to

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have a savings account with no minimum balance. And micro insurance provides these borrowers with insurance, at a lower rate, and with lesser premiums.

HISTORY OF MICROFINANCE

Microfinance is not a new concept. Small operations have existed since the 18th century. The first occurrence of micro lending is attributed to the Irish Loan Fund system, introduced by Jonathan Swift, which sought to improve conditions for impoverished Irish citizens. In its modern form, micro financing became popular on a large scale in the 1970s.

The first organization to receive attention was the Grameen Bank, which was started in 1976 by Muhammad Yunus in Bangladesh. In addition to providing loans to its clients, the Grameen Bank also suggests that its customers subscribe to its "16 Decisions," a basic list of ways that the poor can improve their lives.

The "16 Decisions" touch upon a wide variety of subjects ranging from a request to stop the practice of issuing dowries upon a couple's marriage, to keeping drinking water sanitary. In 2006, the Nobel Peace Prize was awarded to both Yunus and the Grameen Bank for their efforts in developing the microfinance system.

India's SKS Microfinance also serves a large number of poor clients. Formed in 1998, it has grown to become one of the biggest microfinance operations in the world. SKS works in a similar fashion to the Grameen Bank, pooling all borrowers into groups of five members who work together to ensure that their loans are repaid. There are other microfinance operations around the world. Some larger organizations work closely with the World Bank, while other smaller groups operate in different nations. Some organizations enable lenders to choose exactly who they want to support, categorizing borrowers with criteria such as level of poverty, geographic region, and type of small business.

Others are very specifically targeted. There are organizations in Uganda, for example, that focus on providing women with the capital to undertake projects like growing eggplants and opening small cafés. Some groups focus their efforts only on businesses whose goal is to improve the overall community through initiatives such as offering education, job training, and working toward a better environment.

BENEFITS OF MICROFINANCE

The World Bank estimates that more than 500 million people have directly or indirectly benefited from microfinance-related operations. The International Finance Corporation (IFC), part of the larger World Bank Group, estimates that, as of 2014, more than 130 million people have directly benefited from microfinance-related operations. However, these operations are only available to approximately 20% of the three billion people who qualify as among the world’s poor.

While microfinance can certainly benefit those stateside, it can also serve as an important resource for those in the developing world. For example, cell phones are being used as a way to bring financial services such as micro lending to those living in Kenya. It’s also made headway in the United States, where burgeoning entrepreneurs with no collateral are able to take out

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loans of less than $50,000 to jump-start their business ventures. It can also help women break the cycle of

poverty. Often, these loans can be as small as $60, for something as small as starting an empanada and snack stand, such as this young single mother from Paraguay. She continued building her business, repaying this loan and taking out larger loans to buy a building for her stand, complete with a refrigerator and attached home for her family. This is microfinance at its best.

In fact, women are major microfinance borrowers, making up 84 percent of loans in 2016, according to the 2017 Microfinance Barometer. Most of these women – around 60 percent – live in rural areas. The microfinance industry is also growing rapidly. In 2016, there were 123 million microfinance borrowers, for a total of $102 billion in loans. India accounted for most of these borrows, followed by Vietnam, Bangladesh, and Peru.

In addition to providing micro financing options, the IFC has helped establish or improve credit reporting bureaus in 30 developing nations. It has also advocated for adding relevant laws in 33 countries that govern financial activities.

The benefits of microfinance extend beyond the direct effects of giving people a source for capital. Entrepreneurs who create successful businesses, in turn, create jobs, trade, and overall economic improvement within a community. Empowering women in particular, as many microfinance organizations do, may lead to more stability and prosperity for families.

MICRO FINANCE AND RURAL DEVELOPMENT

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, forcing them to revert to other means of acquiring them.

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 micro finance industry's objective is 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 micro finance 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.

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 is considered a tool for socio-economic development, and can be clearly distinguished from charity. Families who are

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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.

LIMITATIONS OF MICROFINANCE

The available evidence indicates that in many cases microcredit has facilitated the creation and the growth of businesses. It has often generated self-employment, but it has not necessarily increased incomes after interest payments. There is no evidence that microcredit has empowered women

The obstacles or challenges in building a sound commercial micro finance industry include:

- Inappropriate donor subsidies
- Poor regulation and supervision of deposit-taking micro finance institutions (MFIs)
- Few MFIs that meet the needs for savings, remittances or insurance
- Limited management capacity in MFIs
- Institutional inefficiencies
- Need for more dissemination and adoption of rural, agricultural micro finance methodologies
- Members lack of collateral to secure a loan

MICROFINANCE IN INDIA

Loans to poor people by banks have many limitations including lack of security and high operating costs. As a result, microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality.

Ela Bhatt had initiated women's own SEWA Cooperative Bank in 1974 in Ahmedabad, Gujarat, perhaps one of the first modern day microfinance institutions of its kind. The National Bank for Agriculture and Rural Development (NABARD) looked at several models for offering financial services to the unbanked, especially women, and decided to experiment with a very different model, now popularly known as Self-help Groups (SHGs). In this approach, a small group of women (and men) are able to form their own little mini bank, self-governed and managed, and create links with banks SHGs (Self-help groups), NGOs and banks. SHGs are often formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations, they are able to save, and also seek credit from the banks.

In 2013, Grameen Capital India was able to loan $144 million to microfinance groups. In addition to Grameen Bank, Equitas has been another microfinance organization in Tamil Nadu.

The main features of microfinance are:

- Loan given without security
- Loans to those people who live below the poverty line
- Members of SHGs may benefit from micro finance
- Maximum limit of loan under micro finance Rs.25,000/-
- Terms and conditions offered to poor people are decided by NGOs

GROWTH OF MICROFINANCE IN INDIA

Particulars	Number(Million)	Amount(Rs.Million)

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	2008-09	2011-12	2008-09	2011-12
1.Self help groups loans disbursed by banks Savings with banks	1.61 6.12	1.37 7.57	122,540 55,460	152,314 75120
2.Microfinance Institutions: Loan disbursed by banks Loans outstanding with banks	581 1915	5.64 2069	373,200 50,090	780,430 111,685

TABLE NO 1

RECENT TREND IN MICROFINANCE

Recently the Reserve Bank of India has raised the micro loan limits to ensure higher flow of funds to the economically weaker section as their role in the economy has grown over the years with the government's inclusive agenda. The RBI has implemented this because MFIs in delivering credit to those in the bottom of the economic pyramid and enable them to play their assigned role in a growing economy. Nobel laureate and founder of Grameen Bank, Muhammad Yunus, said that the microfinance industries in India will double its lending in the next five years if the current growth trend continues. Microfinance industry posts 38 per cent growth in 2018-19.

2. CONCLUSION

Indian Microfinance today is a dynamic space with multitude of players offering various products and services to low income clients with different approaches. Many new forms of relationships are emerging among these entities to leverage on each other's strength. However, despite such new developments the penetration of microfinance remains low and spread highly skewed in Southern India. Growth and expansion the essence of microfinance as a programme for reaching the poor and excluded has lost its focus. It is necessary to shift the focus from quantity of microfinance to the qualitative usages of microfinance and it is crucial to supervise the utilization of the microfinance.

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