FINANCE AND ECONOMICS - BANKING, MICRO-FINANCING AND FINANCIAL INCLUSION

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ABSTRACT

The purpose of this paper is to present Microfinance a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. In addition, microfinance institutions are now innovating new products to help meet these needs and products used in the microfinance. This study summarizes microfinance models, needs and practices.

Keywords: Microfinance, Banking, Institutions

1. INTRODUCTION

Microfinance, also called microcredit. Microfinance is a category of service targeting individuals and 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, micro insurance and payment systems, among other services.

WHO STARED MICROFINANCE IN INDIA?

Micro finance has a long and distinguished history in India. Introduced for the first time by the SEWA bank, part of the Self-Employed Women's Association (SEWA) Gujarat in 1974 was established at Ahmedabad, as one of the 1st modern -day microfinance institutions in the country.

1.1 FEATURES OF MICROFINANCE

Some of the significant features of microfinance are as follows

- The borrowers are generally from low-income backgrounds
- Loans availed under microfinance are usually of small amount, i.e., Microloans
- The loan tenure is short
- The purpose of microfinance loans is income generation
- Microloans do not require any collateral
- These loans are usually repaid at higher frequencies

1.2 ADVANTAGES OF MICROFINANCE COMPANY

Collateral-free loans

i. Most of microfinance companies seek no collateral for providing financial credit.
ii. The minimum paperwork and hassle-free processing and make them a suitable option for quick fund raising.

Help people to meet their financial needs

i. The famous financial institute provides unparalleled services when it comes to loans

ii. But the worst part is that they are not accessible to low-income groups.
iii. Microfinance companies, however, offer different proposition altogether
iv. They are dedicated to serving a poor and unemployed individual by providing them easy financial credit.

Disburse quick loan under urgency

i. The financial crisis is inherently unpredictable as it could creep up at any point intime without intimating anybody.
ii. Thanks to microfinance companies that can provide secure and collateral free funds to anindividual in the demanding situation to meet their financial need.

Promote self-sufficiency and entrepreneurship

i. Microfinance companies can provide much-need funds to an individual for setting up a healthy business that seeks minimum investment and offers sustainable profit in the long run.
ii. Thus, these companies ensure entrepreneurship and self-sufficiency among the lower-income group.

Provide an extensive portfolio of loans

Microfinance companies are not only limited to providing emergency credit but also capableof disbursing housing loans, business loans and working capital loans.

1.3 DISADVANTAGES OF MICROFINANCE COMPANY

Harsh repayment criteria

i. In the absence of the legit working protocol and compliance, Microfinance Companies could adopt the harsh repayment approach that someone would not prefer in the state of the financial crisis.
ii. Easy debt never comes with relaxed conditions and that is something true with microfinance companies as well.
iii. Since these companies work under strict compliances, they could manipulate their customer for repayment unethically.

Small Loan amount

i. Unlike mainstream financial banks, Microfinance companies offer a smaller loan amount.
ii. Since these banks don't ask for collateral against the credit, the disbursement of the loan amount is practically impossible in their case.

High-interest rate

i. Another problem with Microfinance companies is that they were unable to render low internet based loans.
ii. This is because they don't follow traditional banks footprint, where the accumulationof funds is easy.
iii. They have borrowed money from these banks to execute appropriately and allocate

some part of it for risk management.

iv. Hence operating cost per transaction is quite high for them despite the high volume transactions per day.

1.4 MICROFINANCE MODELS

The Indian microfinance sector has two major models for microfinance delivery the SHG (Self Help Group) Bank Linkage programme and the MFI (Micro Finance Institutions) model. While the MIF model is growing rapidly the SBLP is by far the more dominant model in terms of outreach. Both these models are very different form each other in methodologies adopted and legal forms of institution involved in service delivery - SBLP, initially promoted by MYRADA (in Karnataka) and PRADAN (in Tamil Nadu and in Bihar) and formally launched in1992 by NABARD began to scale- up in the mid-1990s.

Bank Guarantees Model

As the name suggests, a bank guarantee is used to obtain a loan from a commercial bank. This guarantee may be arranged externally (through a donor /donation, government agency etc.) or internally (using member savings). Loans obtained may be given directly to an individual, or they may to given a self- formed group.
Bank Guarantee is a form of capital guarantee scheme. Guaranteed funds may be used for various purposes including loan recovery and insurance claims. Several international andUN organizations have been creating international guarantee funds that banks and NGOs can subscribe or start micro credit programmes.

Credit Unions Model

A credit union is a unique member- driven, self-help financial institution. It is organizedby and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest.
The members are people of some common bond, working for the same employer, belonging to the same church, labor union, social fraternity etc., or living / working in the same community. A credit union's membership is open to all who belong to the group, regardless of race, religion, color or creed. A credit union is a democratic, not-for-profit financial cooperative. Each is owed and governed by its members, with members having a vote in the election of directors and committee representatives.

Grameen Model

The Grameen model emerged from the poor- focused grassroots institution, Grameen Bank, started by ***Prof. Mohammed Yunus***in Bangladesh. It essentially adopts the following methodology:

- A bank unites set up with a field manager and a number of bank workers, covering an area of about 15 to 22 villages.
- The manager and workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identify prospective clientele, as well as explainthe purpose, functions and mode of operation of the bank to the local population.
- Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for and receive a loan. The group is observed for a month to see if the members

are conforming to rules of the bank.

- Only if the first two borrowers repay the principal plus interest over a period of fifty weeksdo other members of the group become eligible themselves for a loan.
- Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense collective responsibility of the group serves as collateral on the loan.

SGSY Model

Swarnajayanti Gram Swarojgar Yojana (SGSY) is an employment generation programme that provides income generating assets through a mix of bank credit and government subsidy. In 1999, SGSY replaced Integrated Rural Development Programme (IRDP), the government's flagship programme on rural development, integrated allied programmer to become the largest self- employment programmer in the country today.
Key components of the SGSY include

- Mobilization of rural poor to enable them to organize into Self Help Groups [SHGs]
- Participatory approach in selection of key economic activities.
- Project approach for each key economic activity.
- Development of activity clusters to ensure backward and forward linkages.
- Training of beneficiaries in group dynamics and skill development for managing micro enterprises.
- Active role of NGOs in the formation of SHGs and their capacity building
- Prioritizing vulnerable groups of women, SC/ST, minorities and disabled.

1.5 RECOMMENDATIONS

There should be financial transparency, i.e., gathering and reporting accurate information, the sequence extends to verifying the information, then to analyzing, comparing judging the performance described by that information. Microfinance institutions can develop its commercial services on a permanent basis only if they operate in appropriate infrastructure, such as information system and training facilities. There should be system procedure and financial technology for reducing transaction cost. For the development of microfinance, it is important to have diversified products and services.

1.6 CONCLUSION

Improve access to microfinance services can enable the poor to smooth out their consumption, manages their risk better, build their assets, develop their micro enterprises and enhance their earning capacity. The landscape of microfinance is changing as a result of increased understanding of how the poor use money and diverse demand for financial services. The microfinance industry is evolving into an increasingly commercial operation to serve a larger segment of the potential market. Although, the achievements in microfinance are impressive but still major problems remain such as, attaining profitability, diversification of product and services etc.

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