Micro-Finance- A Ray of Self Dependence

Dr. Rashmi B. Mehta

Associate Professor, Rofel Art's and Commerce College, Vapi (India)

ARTICLE DETAILS

Article History
Published Online: 10 June 2019

Keywords
Microcredit, Entrepreneurs, Low Income People.

Corresponding Author
Email: rashmi25467[at]gmail.com

ABSTRACT

In this competitive era thought of starting up any business leads to various though complication and scenario to be cleared in the market of survival. It is rightly said that businesses are inherited, starting is tough. But an emergence to a new concept of Microfinance or also know as Microcredit has given a ray of hope to medium and small category of entrepreneurs or middle class and low income people to build up their thought of self-employment. With this regards the paper encompasses the dimensions of Microfinance along with how it really benefits the people. The paper also takes into consideration the real impact or working or real functioning of microfinance. In short paper highlights all the major pros of microfinance.

1. Introduction

India a country which categorizes its people into three segments i.e. rich, middle class and poor. Mainly India comprises of high number of people that dwells under middle class category which are also know as low income people. These large segments of people also have aspiration to be self employed and to fulfill their basic desire of life so, this led RBI to come up with the concept of Micro Finance. Micro Finance is the branch of those financial services that deals with targeting individuals and small business units that lack basic banking credit services. Micro Finance is a wide branch which comprises of providing credit to poor’s, individuals and small business units, checking payment systems, opening saving accounts and most importantly providing micro insurance.

Micro finance is a customer centric process that takes into consideration the need and commitment of each and every micro-borrower. Basically Micro finance is such a concept that is designed with the framework of including that type of credit which facilitates in generation of income, enables to manage risk, helps in building up assets and meet the basic household needs of the individual and the small entrepreneurs. In short we can say that micro finance is that initiation that strengthens the individual and small entrepreneurs to go for small loans, progress and become ready for the traditional loan. Micro finance is structured in such a way which is affordable to poor’s and socially marginalized people to fulfill their all desire and move towards becoming self sufficient with the aim of making India self reliant.

2. Benefits of Micro Finance

Micro finance has become an easy solution for individuals and small entrepreneurs to improve their standard of living. Micro finance helps people to work upon their finances and become financially independent so that they can work into the direction of better living conditions. Here are the ways how micro finance has really benefited people.

1) Easy Access to Credit: Microfinance is such a concept that provides easy asses to the opportunities of small credit to individuals and small entrepreneurs without any further credits or collateral. There are certain financial institutions that don’t believe in the concept of microfinance as it involves high risk of money. Yet without credit to pursue the idea of development and self sufficient is also not worth, because to be self reliant with poverty is difficult. The only way out is microfinance which moulds idea into success of huge pay day one day.

2) Nominal repayment Rate: Microfinance is the real lively hood for the poor and small aspirant’s entrepreneurs. They know that through microfinance they can give their families a better off so they deliberately work upon fuller utilization of finance provided along with its repayment. In one of the studies it was proven that repayment rate of microfinance is almost 98% which is much higher than traditional repayment.

3) Opportunities to Provide Education to Children’s: India is basic all an agricultural country even in 21st century majority of families depend upon agriculture for their survival. With the growing scenario we know that farmers are poor and deprived of basic necessities also and so for them educating their children is also a tuff task. But microfinance has made it easier with giving small credits at nominal rates that facilities them to give better education and future to their children’s.

4) Leads to Future Investment: Microfinance helps in making money by providing money. This works in a way that once through basic money available and other money through microfinance is arranged then this money together helps in satisfying all the basic needs like food, shelter, clothing, sanitation good health and education of an individual. Once these are satisfied it builds up a confident in an individual regarding basic necessities and with leftover money in hand he plan his future investments.

5) Creates Employment: Microfinance leads to creation of chain of employment in two ways one at major level and another at minor level. When a small entrepreneur takes microcredit to start-up small firm he creates employment for himself and also employees others in his firm by creating various jobs- this is creation of employment at major level. The minor level employment is created by the financial
institution that is offering microfinance products i.e. they hire employees in order to manage their institution microfinance portfolio.

6) Subsidy Assistance: Generally it is been observed that microfinance is most of the time provided with subsidy i.e. government scheme for poor and small entrepreneur are merged with microfinance to make it more effective and simple easy access to the needy of microfinance. This collateral of subsidy and microfinance benefits individual in large share of finance with minimum rate of interest.

7) Reaches Remote Area: Players providing microfinance are not only financial institution but local traders, NGO’s and other money lenders also provide microfinance. So as there are local players involved in providing microfinance where financial institution can’t reach facilities people with this facility.

8) Not Constricted by Regulation: Microfinance is such a product that is available in both formal and informal market so it is not binded by strict rules and regulations. Moreover the amount given as microcredit is also very minor so it does not require strict code of conduct.

Microfinance is vital in today’s world because it provides finance to socially deprived people and new small entrepreneurs. Earlier when microfinance as a concept was not developed it was very difficult for them to avail credit, and even if credit is taken they have to pay high rate of interest so microfinance as been a boon to them.

3. Impact of Micro Finance

Over the decades microfinance is studied and measured leaving no sign of its impact on individual, enterprise and group. Microfinance and various studies related to microfinance have proved that people are literally lifted from the poverty line as this microfinance funding has been established. There is ample of data available on how microfinance has financially upgraded the borrower and his /her household with qualitative results.

Detailed impact of microfinance can be seen at three different levels i.e. Household level, Individual level and Enterprise level. At household level impact is seen by increasing household income. By credit household tries to diversify its portfolio by acquiring more assets like land, housing and construction or investment in health and education which directly or indirectly provides them benefits. At individual level microfinance provides empowerment to individual to work out with their desire with small credits. We also know that people move from one crises to another in that case microfinance helps them to manage risk. Several reports also suggest that microfinance at individual level increases the tendency to save. At enterprise level the impact of microfinance is negligible but it is felt in creation of employment opportunities.

Major impact of microfinance is felt with prioritizing large outreach with supporting financial institution with sustainable growth microfinance encourages market research to better understand client’s preference and removes the barrier that hinders the clients from availing the benefits of microfinance. Thus it is observed that microfinance has left its impact all over.

4. Success Factors of Micro Finance:

Success of microfinance depends on various factors beginning from leadership, risk management, information technology, staff motivation and training, regulatory framework, innovation, portfolio management, outreach, managerial skills, resources, marketing and corporate governance. Apart from these there are other ample of factor that determine the real success of microfinance. According to general overview following are the ey success factors of microfinance:

1) Information technology and Innovation: Microfinance itself is an innovation in itself which makes it distinct from traditional banking finance. Continuous Innovation in the portfolio of microfinance makes it successful. Moreover the collaboration of microfinance with management information system provides it with integrity and relevance.

2) Staff training and motivation: Success of any institution directly depends upon its staff members and same is there in case of microfinance. Staffs training, retraining and motivational sessions are consider as one of the success driving factors of microfinance.

3) Management and Leadership: management is the root of any institution, an effective management and influential leadership leads to success of any institution. Management and leadership together establishes a good organization structure and in microfinance it success dwells with giving full autonomy to one who is handling microfinance products and its activities.

4) Regulatory Framework: the major success of microfinance is it regulatory framework which is not very stringent. Microfinance deals with very basic, simple and easy to follow regulatory framework which makes it more successful.

5) Coverage and Reach: microfinance model is developed in such a way that it covers wide range and reaches to remote places where traditional banning facilities are not available. This wide geographical reach enhances the revenue generation and brings in sustainability in microfinance.

These are the basic key sources that lead to success of microfinance.

5. Conclusion

To sum up we can say that microfinance is such a good combination of risk and return. Microfinance in very less time has number of clients associated with them this is because microfinance has diversified portfolio. Moreover microfinance allows people to tae in small loans which is consistent and ethical. In these changing socio-economic conditions microfinance is continuously providing financial assistance along with various innovation encompassed covering wide geographic area. In short microfinance is providing practical intervention and an innovative solution of financial needs of household, individual and enterprise.
References

2. https://www.investopedia.com/terms/m/microfinance.asp
4. https://www.researchgate.net/publication/329744344_A_Study_on_the_Performance_of_Microfinance_Institutions_in_India