

## MICRO FINANCE PROGRAMME: PROGRESS AND PROBLEMS

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### Abstract

*The idea of microfinance somewhat strictly rolls around the philosophy of Muhammad Yunus of Bangladesh (Nobel laureate) who initiated organization poorest of the poor into self-help groups namely Bangladesh Grameen Bank (BGB) in the year 1976, and make them realize the basic "theory of survival". It began in 1976, with lending of \$ 27 to 42 poor people in a village next to the university campus where he was teaching economics. He had no intention of making a wave he was planning to create a bank for the poor. He had a modest goal. He was trying to free 42 people from the clutches of moneylenders by giving them the money, owed to the moneylenders, in order to repay them and become free from exploitation. However, the world-wide awareness and importance of microfinance for the upliftment of the poor has been growing over the years as different countries are attempting to device ways and means to enhance the access of the poor to credit facilities. As a result, an intense debate has erupted among the planners, bankers and officials of the government and non-government organization as to how financial services can be provided to the poor in an effective, efficient and sustainable manner. Finally the attempt and the idea has been praised worldwide and the interest reached a new peak with a micro-credit summit held in February 1997 in Washington which was considered the first step of a decade-long campaign that seeks to ensure delivery of credit for self employment by 2005 to hundred million of the world's poorest families especially women of those families. In this paper problems and prospects of micro finance is discussed.*

**Keywords:** Micro Finance, Financial Services, BGB, Self-Help Groups.

### Introduction

Loans to poor people by banks have many limitations including necessity of security and high operating cost and so, microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality. It was in such an environment that microfinance emerged as an innovation the world over. It was evolving into an effective system for provision of financial services to the poor households, more especially micro-enterprises. Internationally several variants of microfinance technology have evolved in the last two decades as also a wide range of institutions.

### Main Features of Micro Financing

Microfinance is defined as financial services such as saving accounts, insurance fund and credit provided to poor and low income clients so as to help them to rise their income and thereby improve their standard of living.

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It is clear that main features of micro financing are:

- Loans are given without security.
- Loans to those people who live BPL (Below Poverty Line) life.
- Even members of SHGs enjoy microfinance.
- Maximum limit of loan under microfinance is Rs. 25000/-.
- The terms and conditions given to poor people are decided by NGOs.
- Microfinance is different from micro-credit. Under micro credit, small amount of loans given to the borrowers but under microfinance besides loans, many other financial services are provided e.g., Savings accounts, Insurance etc. Therefore, microfinance is a wider concept than micro credit.

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#### **Problems and Prospects of Microfinance Programme in India**

There are over 10,000 microfinance institutions serving in excess of 150 million customers, 100 million of them being the poorest families. Microfinance is gathering momentum to become a significant force in India. Some problems faced by micro finance in India are:

- **FIS and Heavy Dependence on Banks**  
Multilateral Investment Funds are dependent on borrowing from banks and FIS. For most of the MFI's funding sources are restricted to private banks and apex MFI's. In these available banks funds are typically short term i.e., maximum 2 years period. Also there is a tendency among some lending banks to sanction and disburse loans to MFI,s around the end of the accounting year in pursuit of their targets.
- **Financial Illiteracy**  
One the major challenge in India towards the growth of the microfinance sector is illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients.
- **Weak Governance**  
Many MFI's are not willing to convert to a corporate structure; hence they trend to remain closed to transparency and improved governance, thus unable to attract capital. MFI's also facing a challenge to strike a balance between social and business goals. Managements need to adapt business models based on changing scenarios and increased transparency; this will enable attracting capital infusion and private equity funds.
- **Inability to Generate Funds**  
Micro Finance Institutions have inability to raise sufficient fund in the microfinance sector which is again an important concerning challenge. Through NBFCs are able to raise funds through private equity investment because of the for profit motive, such MFIs are restricted from taking public deposits.

- **Regional Imbalances**

There is unequal geographical growth of Microfinance institutions and SHGs in India. About 60% of the total SHG credit linkages in the country are concentrated in the Southern States. However, in States which have a larger share of the poor, the coverage is comparatively low. Main reason for this is the state government support, NGO concentration and public awareness.

- **Interest Rate**

MFIs are charging very high interest rates, which the poor find difficult to pay. MFIs are private institutions and therefore require being economically sustainable. They do not get any subsidized credit for their lending activities and that is why they need to recover their operational costs from borrowers.

### **Suggestions**

Although the microfinance sector is plagued by a number of problems but there is a way out for the problems faced by this sector. Improvements are required from the side of government, microfinance institutions and individual clients. Some of the suggestions are:

- There is huge demand and supply gap, in money demand by the poor and supply by the MFIs. So there need to be an activate participation by the private sector in this Industry.
- One strict recommendation is that there should not over involvement of the Government in MFIs, because it will stymie the growth and prevent the others MFIs to enter.
- Leading banks and industry developments must be taken into consideration for district-wise and block-wise economic opportunities and resourcemaping.
- The concept of Micro Finance is still new in India. Not many people are aware the Micro Finance Industry. So apart from Government programmers, we the people should stand and create the awareness about the Micro Finance.
- There are many people who are still below the poverty line, so there is a huge demand for MFIs in India with proper rules and regulations.
- Microfinance programmes and group formation should be handled by trained personnel in a professional manner.

Microfinance is necessary in India to achieve financial inclusion of the poor in the rural and urban areas. Lending to the poor population if handled in an effective manner it can be a miracle for the development of the country and alleviation of Poverty.

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