Financial Management Practices in Micro Financial Institutions

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Abstract

Microfinance is increasingly being considered as one of the most effective tools of reducing poverty. Microfinance has a momentous role in bridging the gap between the prescribed financial institutions and the rural poor. The Micro Finance Institutions (MFIs) accesses financial resources from the Banks and other predictable Financial Institutions and afford financial and sustain military to the poor. Microfinance institution (MFIs) as a financial institution that provides small loans to people who otherwise would not have access to create. Poverty is the main reason of apprehension in humanizing the economic status of developing countries. A microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services. A great range of organizations is regarded as microfinance institutes. They are those that offer credits and other financial services to the representatives of poor stratum of population. This is paper has made an attempt to focus on these titles.

MEANING:

MFIs are the essential abroad organizations in each country that make individual microcredit loans directly to villagers, micro entrepreneurs, insolvent women and poor families. An overseas MFI is like a small bank with the same challenges and capital needs confronting any intensifying small venture but with the added conscientiousness of serving economically-marginalized populations. Many MFIs are creditworthy and well-run with proven records of success, many are operationally self-sufficient. Various types of institutions offer microfinance: credit unions, commercial banks, NGOs (Non-governmental Organizations), cooperatives, and sectors of government banks. The emergence of “for-profit” MFIs is growing. In India , these ‘for-profit’ MFIs are referred to as Non-Banking Financial Companies (NBFC). NGOs mainly work in remote rural areas thereby providing financial services to the persons with no access to banking services.

THE GOAL FOR MFIS:

1. To improve the quality of the poor by on condition that access to financial and maintain services.
2. To be a practicable financial institution budding sustainable communities
3. To mobilize resources in order to provide financial and support services to the poor, particularly women, for viable productive income generation enterprises enabling them to reduce their poverty.
4. Learn and evaluate what helps people to move out of poverty faster.
5. To create opportunities for self employment for the underprivileged.
6. To train rural poor in simple skills and enable them to utilize the available resources and contribute to employment and income generation in rural areas.

OBJECTIVES OF MICRO FINANCE:

Traditionally, when a person wants to start a business venture, they go to a bank for a loan. But what should a budding entrepreneur do if he is too poor to obtain financing to start a profitable business? The answer lies in a relatively new branch of financial services called microfinance. Its rationale is to provide basic financial services such as loans, savings and insurance to unfortunate people. A microfinance institution (MFI) is simply one that offers such services to the poor.

OBJECTIVES OF MICROFINANCE COMPANIES:

- Promoting socio-economic development at the community level.
- Emergent and amplification self-help groups and facilitating sustainable development.
- Providing professional training to unskilled population.
- Empowerment of women.
- Conducting programs for the poor.
- Promoting sustainable agriculture and resonance protection of natural resources.
- Organizing and coordinating based on the grass root level.
- Making well-organized use of the obtainable resources for production of livelihood.

PROVIDE ACCESS TO FUNDS IN MFI:

Typically, the poor get hold of financial services like loans through casual relationships. These loans come at a high cost per dollar loaned and can be untrustworthy Banks have not conventionally viewed poor people as pragmatic clients and often will reject them due to deranged credit or employment history and lack of guarantee. MFIs dismiss such necessities and provide small loans at history and lack of collateral. MFIs give notice to such necessities and provide small loans at high interest rates, thus on condition that MIFs the funds they need to continue operation.

ENCOURAGE ENTREPRENEURSHIP AND SELF-SUFFICIENCY:

Underprivileged people may have potentially profitable business ideas, but they cannot put them into action because they lack sufficient capital for start-up cost. Microcredit loans give clients just enough money to get their idea off the ground so they can begin rotating a profit. They can then pay off their micro-loan and continue to gain income from their venture for an inaccurate period.

MANAGE RISK:

Microcredit can give bankrupt people enough financial steadfastness to cross from simply in existence to accruing savings. This gives them reinforcement from sudden financial problems that could have been stressful. Savings also allow for instructive speculation, improved nutrition, better living conditions and reduced illness. Micro insurance provides people the ability to pay for health care when needed, so they can receive treatment for health condition before they become grave and more costly to treat.

EMPOWER WOMEN:

Women make up a large quantity of microfinance beneficiaries. Traditionally, women (especially those in underdeveloped countries) have been unable to willingly contribute in economic activity. Microfinance provides women with the financial sponsorship they need to start business ventures and uncompromisingly contribute in the economy. It gives them self-assurance, improves their status and makes them more active in decision-making, thus inspirational gender equality. According to CGAP, long-standing MFIs even report a decline in violence towards women since the commencement of microfinance.

COMMUNITY – WIDE BENEFITS

Generally verbal communication, microfinance institutions try to find to decrease absence wide-reaching. As they attain funds and armed forces from MFIs, recipients gain gigantic financial reimbursement which trickle down to others in their families and communities. New business ventures can provide jobs, thereby increasing income among community members and improving their overall well-being. Microfinance services gives hope to people who previously had little or no opportunity to be self-sufficient.

ADVANTAGES AND DISADVANTAGES OF MICROFINANCE COMPANIES

Microfinance companies have been established for the purpose of providing financial services to the micro-sector of the economy, which basically consists of a poor section, farmers, small traders, and retailers in rural and semi-urban areas. These are the organizations established for the purpose of carrying on the business of extending micro-finance services and may also operate in the form of a society, a trust, or a co-operative society.

Financial sector bringing into existence a wide variety of financial products, there is an increased diversification in the customer base. On one hand, the banks and large financial institutions are concentration on big business; on the other hand, it have taken the charge of the financial needs of the unorganized sector of the economy.

- A variety of other financial services will be needed by the poor and not just loans; therefore, it is a powerful tool to eradicate poverty;
- It concentrates on building financial system for the poor and unemployed;
- It strives to build permanent local financial institutions that aim to attract domestic deposits, recycle them into loans, and provide other financial services;
- Enabling financial services is the government's job, not providing them.

MICROFINANCE SERVICES ARE PROVIDED BY THREE TYPES OF SOURCES :

- Formal institutions, such as rural banks and cooperatives.
- Semiformal institutions, such as nongovernment organizations, and
- Informal sources such as money lenders and shopkeepers.

DIFFERENT TYPES OF MICROFINANCE INSTITUTIONS IN INDIA:

The microfinance models are developed in order to cope with the financial challenges in financially backward areas. There are various types of microfinance companies operation in India.

JOINT LIABILITY GROUP (JLG)

Joint liability group can be explained as the informal group consists of 4-10 individuals who try to avail loans against mutual guarantee from banks for the purpose of agricultural and allied activities. This category generally consists of tenants, farmers and other rural workers. They work primarily for lending purposes, although they also offer the savings facility.

JOINT LIABILITY GROUP RULES AND CONDITIONS:

- 5-10 members per group
- Generally lending only, irrespective of savings amount
- Members invest loan amount for different purposes, but are guarantors of each other
- All members interact with the financial institution individually

SELF HELP GROUP:

Self help group is a type of formal or informal group consisting of small entrepreneurs with similar kind of socio-economic back grounds. Such individuals temporarily come together and generate a common fund to meet the emergency needs of their business.

These group are generally non- profit organizations. The group assumes the responsibility of debts recovery.

SELF HELP GROUP RULES AND CONDITIONS:

- 10-20 members per group.
- Regular savings in deposit accounts with the financial institutions.
- All individuals of group work together on the same activity.
- More formal with defined positions in each group like treasurer and secretary.

GRAMEEN BANK MODEL:

Grameen bank model has been widely adopted in India in the form of regional rural banks (RRB).the goals of this system has been the overall development of the rural economy. which generally consists of financially backward classes. but this model has not been fully successful in India as rural credit and system of recovery are a real problem.

GRAMEEN BANK MODEL RULES AND REGULATIONS:

- Starts with only 2 members per group in a village, eventually.
- Savings and deposits to extremely poor sections of the society for business, health and housing.
- Field Manager visits villages to form groups of 5 and lends to 2. Amount recovered is reinvested in further lending and infrastructure development in villages.
- Formal structure consisting of Unit Manager, Field Manager, etc. Who interact with every family in a village.

RURAL COOPERATIVES :

Rural cooperatives in India were setup during the time of independence by the government. They used the mechanism to pool the resource of people with relatively small means and provide financial services. Due to their complex monitoring structure their success has been limited.

RURAL COOPERATIVES RULES AND CONDITIONS:

- 70-80 members per group
- Primarily lending services for agricultural purposes
- Cooperative society consisting of members are formed for a singular purpose; such as real estate, agriculture, infrastructure, etc.
- All members interact with the financial institution jointly

MICROFINANCE & LOAN TRACKING:

microfinance institutions a system managing the loan workflow as well as multiple loan calculations options, our end-to-end software solution enables managers, loan

officers, credit analysts, and loan committees at all levels to efficiently manage and track all loans information and provide stakeholders with financial and statistical datain addition to other reports and indicators for performance measurements and evaluation. The Loan management system is fully integrated with the Bison Enterprise Financial and Payroll Systems in addition to flexibility in customizing and implementing each system according to the workflow and requirements of each institution.

MICROFINANCE PRODUCTS:

Micro finance products Offering financial services to poor people in developing countries is expensive business. The cost is one of the biggest reasons why traditional banks don´t make small loans, the resources required for a 50$ loan is the same as for a 1000$ loan. MFIs also have big personnel and administration costs. Field staff managers must perform village surveys before entering a village, conduct interviews with potential borrowers, educate the borrowers in credit discipline, travel to the villages every week to collect interest and distribute loans and control that the loans are being used for the given purpose.

- **MICRO SAVINGS** : A possibility to save money without no minimum balance. Allows people to retain money for future use or for unexpected costs. In SHGs the members save small amounts of money, as little as a few rupees a month in a group fund. Members may borrow from the group fund for a variety of purposes ranging from household emergencies to school fees. As SHGs prove capable of managing their funds well, they may borrow from a local bank to invest in small business or farm activities. Banks typically lend up to four rupees for every rupee in the group fund;
- **MICRO INSURANCE** : Gives the entrepreneurs the chance to focus more on their core business which drastically reduces the risk affecting their property, health or working possibilities. The is different types of insurance services like life insurance, property insurance, heals insurance and disability insurance. The spectrum of services in this sphere is constantly expanded, as schemes and terms of providing insurance services are determined by each company individually;
- **MICRO LEASING** : For entrepreneurs or small businesses who can´t afford buy at full cost they can instead lease equipment, agricultural machinery or vehicles. Often no limitations of minimum cost of the leased object;
- **MONEY TRANSFER**: A service for transferring money, mainly overseas to family or friends. Money transfers without opening current accounts are performed by a number of commercial banks through international money transfer systems such as Western Union, Money Gram, and Amelia. On the surface they may seem like small money transfers, but when one considers that such transactions take place millions of times around the world each week, the numbers start to become impressive. According to the World Bank, the annual global market for remittances – money transferred home from migrant workers – is around 167 billion US dollars. The estimated total is closer to 230 billion dollars if one counts unregulated transactions. Remittances are also an important source of income for many developing countries including India, China and Mexico. While credit is an important financial service provided by microfinance institutions in India there are other financial services as well as. We will now look at Savings, which is another financial service provided by some MFIs in this post.

- **SAVINGS:**
  - ✓ Saving is a very important financial service, which can help people in smoothening their cash flows and use money when it is required rather-then when it is earned. Any extra or residual income after meeting all expenditures can be called saving. Savings play an important role in reducing vulnerability of the poor. Earlier there was a notion that the poor don't or cannot save. It was later realized that poor too can save; there is only a need for a suitable product to capture these savings. Savers/Clients need some place where they can store the amount saved. People having access to banks save in banks and not just save but also earn interest on their savings.

  - ✓ Low-income people/clients generally have volatile savings or very small savings and often do not have access to banks. The very small volume and uncertainty about savings make them unable to use banks for depositing their savings. MFIs however, can provide them the scope for keeping their savings…Savings are mutually beneficial for the clients as well as for the MFIS.

  - ✓ Personal savings are useful in meeting sudden unexpected expenditures such as a health or any accident. As getting credit for consumption purpose could be difficult, savings can complement credit and can be a source of fund for consumption purposes such as education or even social ceremonies for which the person would have otherwise borrowed. Therefore, savings help in absorbing shocks, thereby reducing vulnerability of the poor.

  - ✓ While savings are important for the low-income groups, it is also a good source of funds for the MFIs. The cost of funds generated through savings is generally much lower than the cost of commercial borrowings. Hence savings can help an MFI in reducing its overall financial costs/expenses and therefore strengthen the sustainability of an MFI. Savings is a more certain as a source of funds and could be a regular source of funds for the MFI whereas mobilization external funds is a more complex and specialized activity calling for fulfilling requirements of the funders, getting credit-ratings or assessments done, providing security to funders, negotiating interest rates, etc.

CONCLUSION:

Therefore, there is a need for efficient microfinance management, which will work towards fulfilling the financial needs of the uncovered section of society. At the same time, there should be proper control and regulations over the workings of the micro-finance companies.

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