Micro finance

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Micro finance

Poor people often have just hand to mouth existence and have few reserves for major expenses such as illness, weddings, house repairs or education. They are unable to build their savings and are forced to borrow at exorbitant rates. This further adds to their burden and worsens their economic situation.

Micro finance is the supply of loans, savings, and other basic financial services to the poor. The idea of micro finance was developed as a survival strategy for the poor. In India, Ela Bhatt established the Self-Employed Women's Association (SEWA) in 1974.
Mohammed Yunus founded the Grameen Bank project in Bangladesh in 1976.

Micro credit provides poor people with access to small loans at more manageable interest rates, and can lead to self-sufficiency and poverty alleviation. There are many models of micro credit.

Saving and borrowing are really different ways of turning small amounts of money into lump sums. Saving involves building a lump sum by first accumulating smaller amounts. Borrower is taking the lump sum first and then 'saving' afterwards in the form of loan repayments

Poor people have been able to reduce debt burdens and break the cycle of poverty, when the interest in low. Studies of the impact of micro finance in more than 24 countries have found dramatic improvements in household income levels.

This paper looks at the various aspects of Micro finance.

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Micro Finance

Poor people often have just hand to mouth existence and have few reserves for major expenses such as illness, weddings, house repairs or education. They are unable to build their savings and are forced to borrow at exorbitant rates. This further adds to their burden and worsens their economic situation. Because the poor have little money, making the most of what they do have is vital.

Like everyone else, people living in poverty need a diverse range of financial instruments

- To run their businesses,
- Build assets,
- Stabilize consumption, and
- Shield themselves against risks.

The poor rarely access services through the formal financial sector. They address their need though village moneylenders who exploit them by charging high interest rates.

Most poor people need and use financial services all the time. Buying goods on credit is far more expensive than paying in cash. They need to save and borrow to take advantage of business opportunities, invest in home repairs and improvements, and meet seasonal expenses. But conventional borrowings have serious limitations in terms of cost, risk, and convenience.

Lending institutions will not lend to people unless they have some kind of security, or collateral, for the loan, to ensure that if it is not paid back, the bank or other institution will be able to recover part of the debt.

Micro finance can be defined as small loans that help poor people who wish to start or expand their small businesses but are not able to get banks to lend to them. Micro credit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. It is helping millions of poor people, especially poor rural women, with tiny loans so they can start small, create self-employment and improve their lives.

Micro finance is the supply of loans, savings, and other basic financial services to the poor. The idea of micro finance was developed as a survival strategy for the poor. Ela Bhatt in India and Professor Muhammad Yunus of Bangladesh are the pioneers in this field.

Ela Bhatt founded **S**elf **E**mployed **W**omen's **A**ssociation (SEWA) in 1972. It was to bring poor women together and give them ways to fight for their rights and earn better livings. Its membership has grown to 7000 members in 1975 and now it must be over 700,000

Professor Muhammad Yunus founded the Grameen Bank in Bangladesh in 1976. It operates very differently from mainstream banks. Most of its customers are women. The bank encourages them to form a small group of five borrowers. The group members guarantee each other's loan. These loans are used for self-employment activities like raising cows, seasonal crop trading, weaving, sewing, operating grocery shops etc.

These groups meet weekly to discuss new loan proposals and to make their loan repayments, including interest. Bank workers also discuss in these meetings issues like health, hygiene, family planning, child immunization etc. Over the years more than one third of these groups have crossed the poverty line, and another third are close to crossing it.

There are over 7000 micro finance institutions worldwide, serving over 16 million poor people. Micro credit provides poor people with access to small loans at more manageable interest rates, and can lead to self-sufficiency and poverty alleviation. There are many models of micro credit.

Through the 1980s and 1990s, micro credit programs throughout the world improved showing that poor people, especially women, had excellent repayment rates. Some of these rates were better than the formal financial sectors of most developing countries. It also showed that, the poor were willing and able to pay interest rates that allowed micro finance institutions (MFIs) to cover their costs. Micro financing has been revolutionizing the rural economy through the self-help groups.

Poor people save all the time, although mostly in informal ways. They invest in assets such as gold, jewelry, domestic animals, building materials, and things that can be easily exchanged for cash.

Providers of financial services to the poor include

- Donor-supported, non-profit non-government organizations (NGOs),
- Cooperatives;
- Community-based development institutions like self-help groups and credit unions; commercial and state banks
- Insurance and
- Credit card companies
- Post offices etc.

Saving and borrowing are really different ways of turning small amounts of money in to lump sums. Saving involves building a lump sum by first accumulating smaller amounts. Borrower is taking the lump sum first and then 'saving' afterwards in the form of loan repayments

Access to credit allows poor people to take advantage of economic opportunities. Though it does not always result in increased earnings, it has been demonstrated that reliable sources of credit provide a fundamental basis for planning and expanding business activities. It reduces vulnerability and increase earnings and savings.

Financial services thus transforms the poor households from "every-day survival" to "planning for the future". It has proved to be a powerful instrument for poverty reduction that enables the poor

- To build assets,
- Increase incomes, and
- Reduce their vulnerability to economic stress.

Micro finance smoothens consumption levels and significantly reduces the need to sell assets to meet basic needs. Micro finance programs have generally targeted poor women. This sends a strong message to households as well as to communities by providing access to financial services only through women like

- Making women responsible for loans,
- Ensuring repayment through women,
- Maintaining savings accounts for women,
- Providing insurance coverage through women etc.,

Access to finance enables poor women to become economic agents of change by increasing their income and productivity, access to markets and information, and decision-making power. It has improved the status of women within the family and the community.

Poor people have been able to reduce debt burdens and break the cycle of poverty, when the interest in low. Access to financial services enables the poor to increase income and smooth consumption flows, and thus expand their asset base and reduce their vulnerability. . Access to financial services enables the poor to fight the various dimensions of poverty and make improvements to their lives. It provides the poor with the means to make improvements in their lives

Increased earning and savings provide poor people with some cushion from the day-to-day struggle of earning a living. Increased earnings from financial services lead to better nutrition and better living conditions, which translates into a lower incidence of illness. This opens up the possibility of investing in their children's future, and in education in particular. With increased earnings the poor do invest in improved housing, water, and sanitation.

Studies of the impact of micro finance in more than 24 countries have found dramatic improvements in household income levels. Micro finance programs may enable poor people to improve their situation, but they do not eliminate the need for other basic social and infrastructure services. The United Nations has declared the year 2005 to be the Year of Micro credit.

Micro financing has been revolutionizing the rural economy through the self-help groups. The success of the concept of micro credit through self-help groups has encouraged the government to use as an instrument to address the issues of poverty and unemployment.

The Grameen Bank of Bangladesh has loans currently in the hands of borrowers totaling over US$300 million, with deposits of a similar amount. Over 95% of the Grameen Bank's 3.8 million members are women. It has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity.

GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GB, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the over all development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable.

Today the SEWA Cooperative Bank has $1.5 million in working capital and more than 30,000 depositors with a loan return rate of 94 percent. SEWA's efforts to increase the bargaining power, economic opportunities, health security, legal representation, and organizational abilities of Indian women have brought dramatic improvements to hundreds of thousands of lives and influenced similar initiatives around the globe.

Financial services for the poor have proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes, and reduce their vulnerability to economic stress. However, with nearly one billion people still lacking access to basic financial services, especially the very poor, the challenge of providing financial services to them remains. Convenient, safe, and secure deposit services are a particularly crucial need.

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