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MICRO FINANCE: SUSTAINABLE DEVELOPMENT STRATEGY

*Dr. Shiny .V.N.
* *Lecturer, Post Graduate Department of Commerce and Research Centre, Mahatma Gandhi College, Thiruvananthapuram.*

Abstract

Microfinance makes people economically independent by putting capital and financial resources in their hands. Economic independence results in higher bargaining power and subsequently results in higher prestige and self-esteem. Microfinance is a source of financial services for entrepreneurs and small businesses. It has become a keyword with Governments, NGOs and international institutions like the World Bank. It has proven to be an effective and popular measure in the ongoing struggle against poverty. Kerala is considered as one of the most successful states from the point of poverty reduction in the country. This success is primarily due to public action in carrying out effective land reforms and providing all round social infrastructures, particularly education and health. Government-based and NGO-based microfinance systems exist side by side in the State. Both have played a dominant role in making microfinance a real movement in Kerala. In this paper an attempt is made to study the effective role of microfinance for the sustainable development in Kerala.

Keywords: Micro finance, women empowerment, micro credit, financial services, poverty

MICRO FINANCE: SUSTAINABLE DEVELOPMENT STRATEGY

INTRODUCTION

Micro Finance is emerging as a powerful instrument for poverty alleviation in the new economy. Poor have received extensive recognition as a strategy for poverty reduction through micro finance. Micro finance institutions (MIFs) empower people as an implicit or explicit goal; because it is incompatible with financial sustainability or because it detracts from the core business of providing financial services. Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor. Micro finance programmes, has been very successful in reaching people. This gives micro finance institution an extra-ordinary opportunity to act intentionally to the development and to minimize the potentially negative impacts of every sector. It is as a grass-root development strategy that followed a trickle up approach to eradicate poverty. The group based approach of microfinance facilitates the poor to accumulate capital by way of small savings and also enables them to have easy access to formal credits for taking up micro enterprises, which will help them to come out of poverty. The joint-liability, strict discipline in providing credit and collecting repayments, and peer monitoring in borrower's activities in the microfinance system ensure better loan recoveries and productive utilization of credit.

OBJECTIVE OF THE STUDY

Main objectives of the study are;

- To discuss the role of microfinance for sustainable development in Kerala.
- To study the services offered by micro financial institutions in Kerala.

Data Source:

Considering the above mentioned objectives, the required data for the study is collected from the secondary sources like books, journals, periodicals, unpublished PhD thesis, and websites of Infosys, banks etc

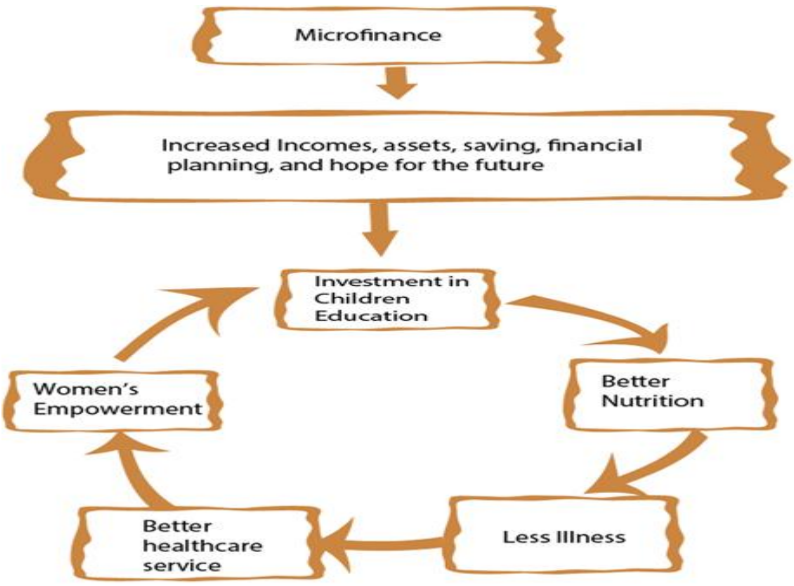
MICRO FINANCE

Micro finance is the provision of a diverse range of financial services and products, including small loans (micro credit), saving accounts, insurance, pensions, and money transfers. It is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to clients are: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. In India, these is a design to assist people living in poverty who are not able to access financial services in the mainstream of banking sector because they have no collateral, formal identification or steady income. Micro enterprises contribute a significant role in economic growth, equity and social stability. This sector is one of the most important vehicles through which India's low-income-earning people can escape poverty. With limited skills and education, poor women particularly in rural areas, find tremendous economic opportunities in micro enterprises. Microfinance services are opposed to the financial services in general and retail financial services are relatively small in relation to the income of a typical individual. Specifically, the average outstanding balance of microfinance products is no greater than 250 per cent of the average income per person (GNI per capita).

The importance concept of Micro finance includes, poor people need a variety of financial services not just loans, it is a powerful tool to fight poverty, its builds financial systems that serve the poor, building permanent local financial institutions that can attract domestic deposits, recycle them into loans and provide other financial services. In micro finance, the job of government is to enable financial services, not to provide them directly, donor funds should complement private capital, not compete with it, its works is best when it measures and discloses its performance.

NEED FOR MICRO FINANCE

The financial base of the poor people is very weak in our country. The scale of their economic activity is limited because they did not have easy, timely, and sustainable finance facilities. As a result they have to rely on informal credit suppliers like landlords, traders, and money lenders at high rates of interest. For small financial needs many people depends on exploitative informal sources of credit such as money lenders and traders. These money lenders and traders are able to respond quickly and with great flexibility to pressing demands and exploit the poor. In India micro finance play very important role for the sustainable development of people. Below chart indicated that;



Advantages of Micro Finance

- Income distribution among a wider section of population.
- Purchasing power redistribution where a large number of people do not have enough purchasing power to participate in a market economy.
- Savings in small amounts and small loans in a flexible, sensitive and responsive manner.
- The availability of timely, sufficient, and un-interpreted finance for poor people.
- Finance support to micro-entrepreneurs.
- Gender development etc.

ROLE OF MICRO FINANACE INSTITUTIONS (MFIs)

A microfinance institution (MFI) is an organization that offers financial services to low income populations. Almost all gives loans to their members and many offer insurance, deposit and other services. They are offer credits and other financial services to the representatives of poor strata of population (except for extremely poor strata).

The role for MFIs should be:

• To improve the quality of life of the poor by providing access to financial and support services;

• To be a viable financial institution developing sustainable communities;

• 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;

• Learn and evaluate what helps people to move out of poverty faster;

• To create opportunities for self employment for the underprivileged;

• 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.

SERVICES OFFERED BY MICRO FINANCIAL INSTITUTION

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 are 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.

Savings

Most people have no suitable option for saving money. Larger sums of money can often not be kept at home, since protection from thieves is lacking. The advantages of money – versatile usability and divisibility – are thereby lost. A bank account allows people to save money in a secure and suitable form. Microfinance institutions are often the only possibility for people with low income to open such an account.

Small loans

Often, small loans are necessary to allow people to become self-employed or to significantly improve their income situation. Microfinance institutions have developed instruments that allow such small loans to be granted. In general, the repayment rate is astonishingly high, since the offerings of microfinance institutions are often the only option for these individuals to receive a loan and they will do everything they can to make use of this opportunity.

Transfers

To avoid carrying cash for the purchase of goods or for relatives, the customers of many microfinance institutions are able to conduct transfers. This obviates the need to travel long distances to hand over money and the risk associated with cash payments.

Insurance

Some microfinance institutions also offer a form of insurance – so-called "micro insurances". Even one's own account may be considered certain insurance. Minor setbacks and short-term financial needs of a limited extent can be absorbed by one's own savings. People living below or barely above the poverty line are exposed to dangers against which a micro insurance can offer a certain level of protection.

MICRO FINANCE AND SUSTAINABLE DEVELOPMENT

Microfinance is a valuable tool for expanding the economy and bringing about poverty alleviation, it must be sustainable. Sustainability is the potential to continue as a closed, self-generating system, it is imperative. It should be capable of expansion beyond the limitations imposed by a reliance on development assistance. Sustainable MFIs have the potential to attract non-subsidized resources to reach the maximum number of clients and finance expansion of outreach. MFIs are normally considered to be development-oriented organizations. To ensure sustainability, the microfinance industry is increasingly assuming characteristics of for-profit businesses, while maintaining a mission focus. For commercial banking institutions, financial results are a key driver. Sustainability in this sense means the ability to continue to provide service and when no outside funding is available, a sustainable institution must be able to survive without assistance.

A sustainable microfinance have two goals on a micro level, financially self sufficient institutions able to provide services without external funding; and on a macro level, industry massification to rapidly extend outreach to reach more people and make micro-finance a meaningful vehicle for poverty alleviation.

CONCLUSION

In Today's context, contribution of micro finance in the different field is increasing at a noteworthy rate. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises. It supports the concept that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. Providing access to microfinance is an effective way of reaching the poor and improving their lives and it leads to the sustainable development.

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