

ROLE OF MICROFINANCE INSTITUTIONS IN THE DEVELOPMENT OF ENTREPRENEURS

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Abstract

Microfinance is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self-employed, who traditionally lack access to banking and related services. Its main objective is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. Micro finance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs.

Keywords: Entrepreneurs, Funding for start-ups Microfinance, Self Employed, Local Permanent Institutions

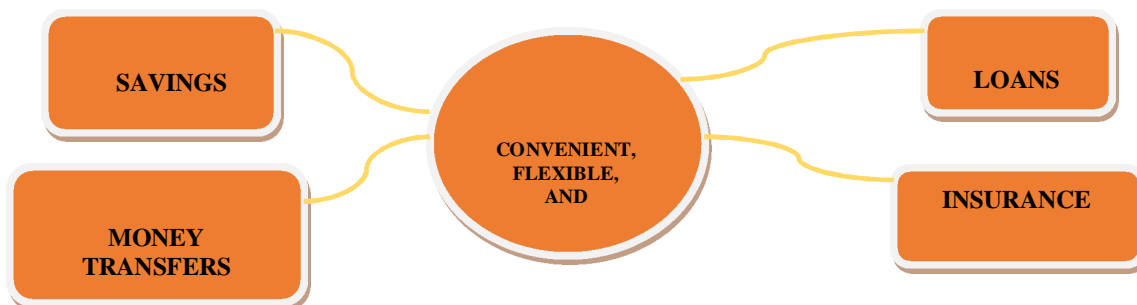
MICROFINANCE IN INDIA

Microfinance is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self-employed, who traditionally lack access to banking and related services. Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. Its main objective is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. It is rather an important tool for the eradication of poverty. Poor will be able to deal with emergency and also make significant investment expenditures. As microfinance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs. Microfinance must involve the people themselves in examining the problems and creating solutions if it is to be sustainable with those upon whom development is targeted. To meet unsatisfied demand for financial services, a variety of microfinance institutions (MFIs) has emerged over time in INDIA.

A. *present the concept ,the scenario , features ,the status , principles ,&need of microfinance in India*

The need of microfinance arises for the following reason sources of income.Microfinance are a program supports the poor rural people to pay its debt and maintain social and economic status in the villages. India is agriculture based economy so microfinance may be tool to empower the farmers and rural peoples.

Needs of Poor People



SOURCES: CGAP

- ◇ india's saving performance over time displays a downturn of saving rates over the past decades.
- ◇ high interest rates make people harder to get credit.
- ◇ 'break even point' in providing loans.
- ◇ few assets to be secured as collateral.
- ◇ interest rates of moneylenders are very high.
- ◇ lack of loan
- ◇ transaction cost of high processing
- ◇ minimum of the bank of the repayment capacity
- ◇ lack guarantors
- ◇ present need of meeting special goal to empower underprivileged class of society.
- ◇ rural people have very low access to institutionalized credit.
- ◇ low rate of education, exploitation.
- ◇ india falls under low income class according to world bank.
- ◇ it is largest population country in the world and 70% population lives in rural areas.
- ◇ 87% of the poorest households do not have access to credit.
- ◇ demand for microcredit has been estimated at up to \$30billion; the supply is less than \$2.2 billion combined by all involved in the sector.
- ◇ 2.1 billion people worldwide live on less than us per day.
- ◇ 56% of the poor continue to borrow from informal sources.
- ◇ 87% lack access to credit from the formal financial system.
- ◇ increasing population of microfinance as the best ever emerging poverty alleviating tool in the developing countries.
- ◇ majority of poor people are "unbanked "with no savings accounts with commercial banks despite some of them running profitable enterprises in addition to microfinance income is cause for concern for local economic development.
- ◇ india's gdp growth is expected to slow to an 11-year low of less than %5 in the fiscal year ending march
- ◇ 35-37% population below poverty line.

- ◇ 450 million unbanked people in india who live in rural areas.
- ◇ estimated credit demand: usd 14 bn
- ◇ demand met so far: usd 14 bn
- ◇ next 3-5 years, around 65% of the rural population will have access to mfis.
- ◇ majority of poor are still excluded from financial services.
- ◇ 70% of the rural poor do not have a deposit account.
- ◇ less than 15% of the households have any kind of insurance.
- ◇ considerable gap between demand and supply for all financial services.
- ◇ india's population is more than 1000 million, around 350 million, are living below poverty.
- ◇ only 20% access loan from the formal sources and 80% from the informal sources.
- ◇ out of that 20% only 10% have access to microfinance.
- ◇ annual credit demand by the poor is estimated to be about rs60, 000 crores. and only 12,000 crores are estimated. (april 09).
- ◇ customers of microfinance are 'economically weaker section'
- ◇ micro-finance or micro-credit, both used interchangeably, is an important tool for the growth of the economy of our country.
- ◇ not realization of financial inclusion in rural india.
- ◇ over indebtedness badly tarnishing the sector's image in india as well as abroad.
- ◇ microfinance has of late become an indispensable part of india's economy as the financial needs of india's rural poor reflect the volatile, uncertain and irregular income.
- ◇ it is a tool for empowerment of the poorest.
- ◇ it is essentially for promoting self employment.
- ◇ direct income generation
- ◇ it is not just a financing system, but a tool for social change, especially for women.
- ◇ microfinance is aimed at the poorest; microfinance lending technology needs mimic the informal lenders rather than the formal sector lending.
- ◇ the poor needs access to financial services
- ◇ the poor has the capability to repay the loans and generate savings.
- ◇ an effective tool for poverty alleviation.
- ◇ grater reach and development.
- ◇ to raise their income levels and improve living standard s.
- ◇ tool to fight against poverty.
- ◇ the transparency of financial activities.
- ◇ india is said to be the home of one third of the world's poor; official estimates range from 26 to 50 % of the more than one billion population.
- ◇ india is fastest growing economies in the world. two thirds of india's more than 1 billion people live in rural areas and almost 170 million of them are poor.
- ◇ estimated that 350million people live below poverty line.
- ◇ this translates approximately 75 million households
- ◇ annual credit demand by the poor in the country is estimated to be about rs 60,000 crores.
- ◇ total outstanding of all microfinance initiatives in india estimated to be rs.1600 crores.
- ◇ only 5% about of rural poor people have access to microfinance.
- ◇ unfavorable policies.
- ◇ lack of an appropriate vehicle.
- ◇ limited access to equity.
- ◇ difficulty in accessing low cost on lending funds.

- ◇ limited access to capacity building support.
- ◇ about 56% of the poor still borrow from informal sources.
- ◇ 70% of the rural poor do not deposit account .
- ◇ 87% have no access to credit from formal sources
- ◇ negligible numbers have access to health insurance (0.4%) and crop insurance (0.2%)
- ◇ about 60% of the MFIs are registered as societies.
- ◇ about 20% are trusts .
- ◇ about 65% of the MFIs follow the operating model of SHGs.
- ◇ 600 MFI initiatives have a cumulative outreach of 1.25 crore poor households
- ◇ NABARD bank linkage program has cumulatively reached a total of 9.4 lakh SHGs with about 1.4 crore households.
- ◇ Unleashing Domestic Capital Markets.
- ◇ Interest Rate Caps Hurt The Poor.
- ◇ Poor people need a variety of financial services not loans only
- ◇ MF is a tool for poverty alleviation ; microcredit might not always be the answer
- ◇ MF has to be a 'sustainable' operation which should result into creation of 'financial system' to serve the poor people.
- ◇ government should provide an 'enabling' environment' .
- ◇

B. Key Principles endorsed by CGAP and G8 Summit:

- ◇ **Poor people need a variety of financial services, not just loans.**
- ◇ **Microfinance is a powerful tool to fight poverty.**
- ◇ **Microfinance means building financial systems that serve the poor.**
- ◇ **Microfinance must pay for itself to reach large numbers of poor people.**
- ◇ **Microfinance is about building permanent local financial institutions.**
- ◇ **Microcredit is not the best tool for everyone or every situation.**
- ◇ Microcredit is not always the answer.
- ◇ **Interest rate ceilings making it harder for poor people to get credit.**
- ◇ **The role of government is to enable financial services, not to provide them.**
- ◇ **Donor funds should complement private capital, not compete with it.**
- ◇ **The key bottleneck is the shortage of strong institutions and managers.**
- ◇ **Microfinance works best when it measures and discloses its performance.**
- ◇ Poor People need a variety of financial services not just loans.
- ◇ Microfinance is a powerful tool to fight poverty.
- ◇ Microfinance means building financial systems that serve the poor.
- ◇ Microfinance can pay for itself and must do so if it is to reach number of people.
- ◇ Microfinance is about building permanent local financial institutions
- ◇ Interest rate ceilings hurt poor people by making it harder for them to get credit.
- ◇ The role of government is to enable financial services not to provide them directly.
- ◇ Donor funds complete private capital not competes with it.
- ◇ The key bottleneck is the shortage of strong institutions and managers.
- ◇ Microfinance works best when it measures -and discloses its performance.

Author: CGAP

Source: www.cgap.org

C. Achievements of Microfinance in India

- 164 MFIs are the most important
- 500 MFIs belong to AFMIN (The Africa Microfinance Network)
- 700 Institutions With Respect to WAEMU (West African Economy Monetary Union)
- 5,328 Service points
- 10 million beneficiaries

II. TYPES OF MFIS

A. Banks

- Commercial Banks.
- Agricultural Credit Banks.

B. Project/State funds

- International aid Programs.
- Para-public organizations.

C. Informal Resources

- Family
- Traditional Savings

- Tontines

- Money Lenders

D. Microfinance

- Credit & Savings
- Direct Credit

Non Governmental Organizations(NGOs)

Performance of the Micro financial Institutions can be judged through their institutional financial viability and their outreach to the poor people. These performances could be influenced by the technical, political and the social factors to combine traditional and modern Micro-finance approaches.

III. MICROFINANCE-HOW TO MAKE IT SUCCESS IN AFRICA

Many approaches have been used that ranges from the traditional group based systems to specialized lending by banks and funded by international Non-Governmental Organizations (NGO) financial intermediaries. Growing linkages between MFIs and the banking system in Africa appear to be mutually beneficial as MFIs rely on banks for a variety of services, including deposit facilities, liquidity management services, and emergency credit lines to cover cash shortfalls in some cases.

OSCAL (Office of the Special Coordinator for Africa and

Least developed countries) developed four principles

- Pooling together people's resources
- Relying and building upon what people know
- Reinforcing microfinance to empower the African private sector
- Striving for efficiency, which include maintenance of tools and better working

In last twenty years Africa has made significant advances in understanding and providing financial services to better advance development and eradicate poverty. In 2006, government of Rwanda ordered to close the country's largest MFI's for bankruptcy due to gross mismanagement of funds and poor credit practices. In Benin, there are very small number bank branches (35 nationwide for population of 7 million) mostly concentrated around the capital city. Against this backdrop SLCs (Saving and Loan cooperatives) are the only MFIs that collect savings. In Guinea, reach of banking sectors is constrained by the limited number of deposit money banks, and credit is

concentrated on largest domestic companies. MFIs have started to fill this gap. In Ghana, MFIs has a strong savings orientation and a greater role is played by Non-Governmental Organizations (NGOs). Rural and Community Banks (RCBs), The Savings and Loans companies (S&Ls) account for most of the microfinance activities. In Tanzania, only six percent of the population has a bank account. The primary sources of microfinance services are Savings and Credit Cooperatives (SACCOs), The National Microfinance Bank (NMB), Cooperative and Rural Development Bank (CRDB), Akiba Commercial Bank (ACB). In addition there are few regional and rural banks engaged in deposit-based microfinance operations which lack branch network.

IV.METHODS IN MICRO FINANCE

To maintain a sustainable microfinance Institute various methods can be followed. Some of them are listed below.

A. Community based Approach

Many MFIs rely on local communities to support the development of MFIs, outside the formal banking sector. Traditional Community based cooperative groups such as village associations and local groups play a central role in the savings mobilization effort and expansion of other microfinance services. Microfinance seems to be rooted in local culture which is more participatory because clients are more ready to identify with and thus involve in making financial decisions and actions that shape their life.

- The Unique features involved are:
- It is simply and easily adapted to illiterate group members.
- Promotes group solidarity, learning and establish a vehicle for addressing community development issues.
- Doesn't rely on infusion of outside funds.
- Doesn't require physical infrastructure

TABLE 1. AFRICAN COUNTRIES GDP

Country	% population below poverty line	GDP Per Capita (US\$)

Angola	---	2058
Benin	73.3	508
Botswana	55.5	5,846
Burkina	71.8	391
Faso	87.6	106
Burundi	50.6	1,034
Cameroon	---	102
Cape	64.0	561
Verd	84.0	339
e	---	654
Chad	---	1,273
C.A.R	---	123
Comoros	48.8	900
Congo	---	894
Congo	---	6,416
DR		
Cote	53.0	220
d'Ivoire	77.8	157
Djibouti	---	5,821
Equatorial	82.9	304
Guinea	78.5	485
Eritrea	40.0	350
Ethiopia	---	190
Gabon	58.3	547
Gambia	56.1	808
Ghana	---	---
Guinea	85.1	271
Guinea-	62.9	161
Bissau	72.1	392
Kenya	63.1	605
Lesotho	65.0	5,059
Liberia	74.1	335
Madagascar	55.8	3,016
Malawi	85.8	244
Mali	92.4	752
Mauritania	87.8	238
Mauritius	---	451
Mozambique		
Namibia	56.2	707
Niger	50.0	8,209
Nigeria	74.5	216
Rwanda	---	---
Sao Tome	34.1	5,109
e	77.8	2,414
Principe	89.9	316
Senegal	32.2	358
Seychelles	37.7	303
Sierra	87.2	623

Leone Somalia South Africa Swaziland Tanzania Togo Uganda Zambia		
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B. Informal Methods for Financial Intermediation

Various Informal traditional methodologies used by licensed MFIs have been instrumental in mobilizing savings from poor income households and giving them access to financial services.

C. Group formation and Networking

MFIs can use and support with regular meeting to emphasize group solidarity, discipline and consequent repayments. Some of them are commonly focused on women; they may also benefit other social groups. The efforts of MFIs to work through group schemes yield a wide range of benefits, developed by the Grameen Bank. MFIs that serve groups and communities could empower underprivileged social constituencies to encourage economic development and poverty reduction.

Country	% population below poverty line	Borrowers from MFIs

Angola	---	11,056
Benin	73.3	110,728
Botswana	55.5	0
Burkina Faso	71.8	136,888
Burundi	87.6	10,272
Cameroon	50.6	86,289 0
Cape Verde	---	15,348
Chad	64.0	2,176
C.A.R	84.0	---
Comoros	---	2,719
Congo Congo	---	196,244
DR	---	5,117
Cote d'Ivoire	48.8	---
Djibouti	---	---
Equatorial Guinea	---	---
Eritrea	53.0	1,795,559
Ethiopia	77.8	65
Gabon	---	574
Gambia	82.9	213,341
Ghana	78.5	99,105
Guinea	40.0	---
Guinea-Bissau	---	857,953
Kenya	56.1	2,711
Lesotho	---	28,815
Liberia	85.1	60,536
Madagascar	62.9	194,649
Malawi	72.1	---
Mali	63.1	---
Mauritania	65.0	49,327
Mauritius	74.1	---
Mozambique	55.8	97,495
Namibia	85.8	404,683
Niger	92.4	39,000
Nigeria	87.8	0
Rwanda	---	---
Sao Tome e Principe	56.2	206,125
Senegal	50.0	---
Seychelles	74.5	10,318
Sierra Leone	---	---
Somalia	34.1	636,387
South Africa	77.8	14,430
Swaziland	89.9	238,613
Tanzania	87.2	88,964
	32.2	207,200
	37.7	14,354

Togo		
Uganda		
Zambia		

TABLE 2. AFRICAN COUNTRIES
 MFIBORROWERS

D. Microfinance

If Microfinance has a sustainable impact on poverty eradication, then it must level up as into starting a private sector of entrepreneurs who function in formal economy. It can support inventiveness for direct supply and market linkages to small and medium businesses that targets entrepreneurs in non-traditional, low volume but high value added products in potential role growth areas of economy.

TABLE 3. AFRICAN COUNTRIES SAVERS
 FROM MFI

Country	% population below poverty line	Savers from MFIs
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Angola	---	27,042
Benin	73.3	54,760
Botswana	55.5	0
Burkina Faso	71.8	515,747
Burundi	87.6	2,796
Cameroon	50.6	360,738
Cape Verde	---	0
Chad	64.0	53,118
C.A.R	84.0	34,724
Comoros	---	---
Congo Congo	---	20,398
DR	---	569,200
Cote d'Ivoire	48.8	17,196
Djibouti	---	---
Equatorial	---	---
Guinea		
Eritrea	53.0	---
Ethiopia	77.8	856,903
Gabon	---	1,578
Gambia	82.9	8,825
Ghana	78.5	361,323
Guinea	40.0	65,470
Guinea-	---	---
Bissau	58.3	3,142,155
Kenya	56.1	---
Lesotho	---	0
Liberia	85.1	157,806
Madagascar	62.9	147,405
Malawi	72.1	382,233
Mali	63.1	---
Mauritania	65.0	---
Mauritius	74.1	91,567
Mozambique	55.8	---
Namibia	85.8	141,372
Niger	92.4	181,610
Nigeria	87.8	39,563
Rwanda	---	0
Sao Tome		
e	56.2	524,428
Principe	50.0	---
Senegal	74.5	6,264
Seychelles	---	---
Sierra Leone	34.1	837,700
Somalia	77.8	0
South	89.9	0
Africa	32.2	318,952
Swaziland	37.7	614,494
Tanzania	87.2	

Togo Uganda Zambia		
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E. Prioritization of Operational Efficiency

If MFIs are to have a better impact on poverty eradication they must be capable, financially viable institutions that can develop the financial leverage to extend outreach at a sustainable level.

Key Principles include

- Target the poorest of the poor.
- Mobilize the Savings.
- Charge less interest rates that only cover Operational
- Costs.
- Market Research.
- Modernizing and Spread out Operations.
- Utilizing Volunteer Staff.
- Prioritizing Women.
- Develop Monitoring and Assessment Tools.
- Investing in Training.

- Tackle the problems.
- Utilize Pre-Existing Support Organizations.
- Evade External Dependency.

V. FINANCIAL NEEDS OF ENTREPRENEURS IN AFRICA

Most of the Africans lack the understanding of what it would take to successful entrepreneurs. They lack necessary technical management skills and confidence. They lack personal ambition and willingness for fear of sharing ownership and failed to form partnership. Some basic tips to the entrepreneurs that helps in the effective handling of microfinance activities. These will help to expand the scope that scale up through state to the global community.

- Acknowledge and Empower African People.
- Set up Realistic Expectations.
- Perform Research.
- Approve Plans Supporting Microfinance Infrastructure.
- Start a Supportive Legal Environment.
- Develop Monitoring and Assessment Tools.
- Change the Public Structures.
- Encourage Microenterprise Initiatives.
- Reinforce Staff Training.
- Utilize pre-existing Institutions such as Postal Savings Banks (PSB).
- Encourage Networking and Cooperation.

On part of African government, rather than viewing local entrepreneurs and capitalists as social threats and passive owners pounded by external forces, they should consider them as potential creators of wealth and transformers of the same environment in which they fight to exist. Government leaders should adopt national development strategies that generate an investment environment conducive to long term business activities. This type of environment can attract a flow of better educated professionals, administrators and technicians into private business. In Africa, Entrepreneurs:

- Must set high Standards of Personal achievements and strive to attain them.
- Should maintain considerable ingenuity and possess business skills.
- Should take tremendous risks in experimenting with new ideas.
- Should be ready to move from the “Profit for self and family” attitude to “Profit for business growth” philosophy.
- Must utilize higher levels of technology with proper training and specialization.
- Must obtain greater degrees of organizational competence and delegate responsibility.
- Must establish more impersonal systems of control.
- Must encourage wide range marketing.

Some of the elements to be considered for a startup of an Enterprise:

- The nature of the enterprise must be appropriate in economic, social and environmental terms.
- Enterprise Policies must be flexible to facilitate local circumstances.
- It should involve features that go beyond traditional enterprise policy.
- They should have special policies and programs for the development and channeling of entrepreneur talent.

VI. PROBLEMS FACED BY THE ENTREPRENEURS

- Technical Assistance
- High Costs
- Few Support Institutions
- Entrepreneurial Attitude
- Tendency towards isolation.

- Lack of organization and integration.
- Financing
- Limited access to financing, both for startup and expanding
- Lack of endorsement and guarantees
- Policy and Enabling Environment
- Excessive regulations and formalities
- Political and economic instability
- Market
- Problems in acquisition of inputs
- Lack of Expertise in domestic and external marketing.

VII. SOLUTIONS FOR THE PROBLEMS FACED

- National trainers/counselors can be prepared.
- Implementation of successful experiences
- Development of institutions for support services of technical kind
- Entrepreneurial training and preparation of young people
- Support to and cooperation with existing business/entrepreneurial
- Association-grouping
- Identification of specific obstacles
- Recommendations for change and environment within these areas
- Adaptation of legal framework
- Vertical Integration
- Information links, regional and international links

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