

Microfinance is defined as financial services such as savings account, insurance funds and credit provided to poor and low income people to help them to increase their income, thereby improving their standard of living.

Micro finance includes the following products:

**Microloans:** The special feature of the microloans is that it is provided with no collateral. It offers a better overall loan repayment rate than traditional banking product.

**Micro savings:** It allows the small entrepreneurs to operate savings bank account with no minimum balance. It helps users inculcate financial discipline and develop an interest in saving for future.

**Micro Insurance:** It is a type of coverage provided to borrowers of microloans. It protects the poor people from all the mishap that might take place in future. Example: Accidents, chronic disease etc.

### **Importance/Role of Micro finance in India:**

The concept of microfinance has been highlighted since 1970s with an aim to uplift the poor section of the society and to enhance economic growth. Its importance has been amplified amidst global financial crisis when trust into formal banking system is shaken.

#### **1. Act as an anti-poverty vaccine:**

Microfinance in India plays a major role in the development of India. It acts as an anti-poverty vaccine for the rural people living in rural areas. It aims at assisting communities of the economically excluded to achieve greater level of asset creation and income security at the household and community level. The utmost

significance of microfinance in India is that it dispenses the access to the capital to small entrepreneurs.

## **2. Act as a tool for the women empowerment:**

Microfinance focuses on women also by granting them loans. It act as a tool for the empowerment of poor women as women becoming independent, they are also able to contribute directly to the well being of their families and are able to confront all the gender inequalities.

## **3. Catering the need of credit to poor people:**

Credit is important to the poor people for maintaining the common imbalance in between the income and their expenditure. It is also vital to the poor people for the income generating activities like investing in marginal farms and other small scale self employment ventures. Their accesses to formal banking channels are low due to the lack of resources. Consequently, microfinance catering the need of credit to poor people. It has contributed a lot in enhancing the quality of life of the poor people.

Therefore, microfinance is not a financial system but a tool to alleviate poverty form our country and bring social change and especially to uplift the status of women in our country so they can become self reliance.

## **Critical Issues of Micro finance/Problems faced by micro finance:**

**a. Lack of Capital:** It is the matter of concern for the MFI that they have a very little capital base in form of their own funds. This becomes the biggest hindrance in scaling up of these institutions. Many of them are socially operated hence, financial sources are very less. This makes their debt-equity ratio quite high.

**b. Sustainability:** It has been observed that delivery model of Microfinance is quite expensive than the traditional ones. It is supported by the fact that the monitoring cost of loan beneficiaries is higher while the quantum of the loan and the loan volume is quite low.

**c. Borrowings:** After showing good performance in past few years by MFIs now banks provide better and higher credit facilities to the MFIs. This change becomes visible after the year 2000 when the RBI granted permission of granting loans to the MFIs by the banking institutions. And that too as their primary lending sector. Private Banks are more interested in granting loans to MFIs through new and innovative schemes. But banks are required to monitor these MFIs properly and make their periodic assessment of the risk involved in lending them.

**d. The Capacity of MFIs:** It is now evident that MFIs have an equal proportion of financial and social development. MFI should become more capable and sustainable then and only then its clients will become same too. This is the basic requirement for effective delivery mechanism and innovative Microfinance practices.

**e. Non-Repayment of Loans:** It is the biggest issue under consideration. MFIs should try to reduce the no. of clients defaulting in loan repayment. As this default leads to huge loss and affects financial sustainability of the MFIs

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