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MICROFINANCE MANAGEMENT OF INDIAN COMPANIES

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Abstract:

History of microfinance can be traced back to the middle of 1800s when the theorist **Lysander Spooner** was writing of about benefits of small credits to entrepreneurs. It is the source of financial services to small scale business lacking access to banking and related services. Microfinance refers to a variety of financial services that target low-income clients particularly women since the clients of microfinance companies (MFCs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amount than traditional financial services. These services include loans, savings, insurance and remittance. Microfinance loans are given for variety of purposes frequently for microenterprise development. This also reflects in diversity of products and services offered. Because of varied needs and because of the industry's focus on the poor, microfinance often use nontraditional methodologies such as group lending or other forms of collateral securities not employed by the formal financial sector.

Keywords: microfinance companies (MFCs) Microfinance, Financial Management, JLG, SHGs.

INTRODUCTION:

In the absence of a separate legal structure, each MFI takes the legal form as per the law/Act under which it is registered. For example, if a MFI is registered under Companies Act, it is a company and a MFT registered under the Societies Registration Act, will be a society and so on. The process of bringing the microfinance sector under the regulatory regime has made significant progress after AP crisis. Immediately after the AP crisis the RBI had constituted the Malegam Committee. Based on this committee's recommendations, the RBI has issued a series of guidelines, notifications and directives, starting with the creation of a separate category of NBFC-MFIs. The regulatory guidance extends to capital requirement, qualifying asset category, asset classification and provisioning norms, pricing of credit, fair practices in lending, transparency and disclosure in interest rate, avoidance of multiple lending and excessive debt, recovery practices, corporate governance and iMprovethent in efficiency through information technology. The two micro finance industry associations, namely Sa-Dhan and MFIN (Micro Finance Institutions Network) have evolved a unified code of conduct for their members. The much-awaited Microfinance Institutions (Development and Regulation) Bill, 2012 was tabled in the Indian Parliament in May 2012 and is referred to the Parliamentary standing committee on finance. "Microfinance refers to small scale financial services for both credit and deposit-that are provided to people who operates small or microenterprises, where goods are produced, recycled, repaired, or trade;

provide services work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas" [1]

Microfinance Services Regulation Bill of India states Microfinance services as "providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for:

i) An amount not exceeding rupees fifty thousand in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) **or**

ii) An amount not exceeding one lakh fifty thousand in aggregate per individual for housing purposes, **or**

iii) Such other amounts, for any of the purposes mentioned at item (i) and (ii) above or other purposes, as may be prescribed."

The bill further defines Micro Finance Institution as an organization or association of individuals including the following if it is established for the carrying on the business of extending microfinance services:

i) A society registered under the Societies Registration **Act,1860**,

ii) A trust created under the Indian Trust **Act 1880** or public trust registered under any state enactment relating to such governing trust or public religious or charitable purposes,

iii) A cooperative society /mutual benefit society/mutually aided society registered under any state enactment relating to any multistate cooperative society registered under the Multi State Cooperative Society **Act, 2002**.

Thus microfinance financial services such as savings, insurance and credit provided to poor and low income clients so as to help them to increase their income, thereby improving their standard of living[2].

Main Features of Microfinance

a) Loans without security

b) Loans to those people who live below the poverty line.

c) Members of SHG may be benefited from microfinance.

d) Terms and conditions offered to clients are decided by microfinance institution.

e) Microfinance is different from microcredit – under the latter small loans are given to borrowers but under microfinance many financial services such as savings and insurance are included. Therefore microfinance has wider concept.

Microfinance in the Indian subcontinent

Loans to poor people by bank have many limitations including lack of security and high operating cost. As a result; microfinance was developed as an alternative to provide loans to poor people with goal of creating financial inclusion and equality.

While the concept has been used globally, **Mohammad Yunus** of Bangladesh is credited with being pioneer of the modern version of microfinance while working at Chittagong University in the 1970s, Yunus began offering small loans to destitute basket weavers. Yunus carried on this mission for nearly a decade before forming the **Grameen Bank** in 1983 as way to reach a much wider audience. In 2006, Yunus and Grameen Bank were jointly awarded Nobel Peace Prize for their micro financing work.

The National Bank for Agriculture and Rural development (NABARD) took this idea and started the concept of microfinance in India. Under this mechanism, there exist a link between Self Help Groups (SHGs), NGO and banks. SHG are formed and nurtured by NGOs and only after accomplishing a certain level of maturity and certain level of their internal thrift and credit operation, they are entitled to seek credit from the banks. These NGO's through the SHG's provides micro lending to the poor users. There is an involvement from concerned NGO before and after SHG Bank linkage programme.

Developing Microfinance Companies in India

Bandhan Financial Services: -

Bandhan financial services were set up by **Chandra Shekhar Ghosh in 2004** as an NGO with nomenclature **Bandhan Konnagar** and register under West Bengal Society Act 1961. In 2006 this NGO acquired NBFC status. In the year 2013 it has been incorporated under The Indian Company Act 1956 and **Bandhan Konnagar** was renamed as **Bandhan Financial Services Pvt. Ltd.** before its transformation into a full fledge bank it was the leading MFC of India with a client base 65 Lakhs spread over 2022 branches in India.

Bharat Financial Inclusion Ltd (formerly known as SKS Microfinance)

Bharat Financial Inclusion Ltd. is a non- banking finance company (NBFC) regulated by Reserve Bank India. **It was founded in 1997 by Vikram Akula**. The company's mission is to provide financial services to poor borrowers helps to alleviate poverty. The company is operating across 18 Indian states.

Bharat Financial Inclusion Ltd offers life insurance and variety of financial loans which includes a) income generation loans b) mid- term loans c) long term loans d) loans for purchase of product like cook stove, solar lights, water purifiers, mobile phones, bicycle and e) sewing machines and loans secured on gold jewelry. The company list some of the social benefits of its financial product and services offering as "providing self employed women oriented financial assistance" to support their business enterprises such as raising live stock, running local retail shop called kirana store, providing tailoring and other assorted trade and services.

Bharat Financial Inclusion Ltd. follows the JLG (Joint Liability Group) model. The methodology involves lending to individual women, using five member groups as the ultimate guarantor to each member. Bharat Financial Inclusion Ltd. Is the first company to charge sub 20 % interest rate on the core income generating loans.

Ujjivan Microfinance:-

Ujjivan was **started in 2005 by Samit Ghosh** who has been a member of the International Banking Community for over 30 years. He successfully led the launch of retail banking for standard chartered in Middle East and South Asia and HDFC bank in India. Today Ujjivan operates in 22 states, including 48 unbanked district of India. It has disbursed over Rs.6, 150 having an exceptional repayment rate of 99.87%. Ujjivan has been driven by strong fundamentals since its inception. Ujjivan has attracted investment from some of the big names in the venture capital industry including International Finance Corporation and Lok Capital. Ujjivan has maintained transparency at all levels of operations and management which turns out to be biggest strength. Ujjivan Financial services Pvt. Ltd. is among first few MFI in the country to design and run urban microfinance programmes.

Janalakshmi Financial Services: -

Janalakshmi Financial Services Pvt. Ltd. commenced microfinance operations in April 2008 by taking over the portfolio of Janalakshmi Social Services. JSS had earlier acquired the urban microfinance programme of Sanghmitra Rural Financial Services and started its own microfinance programme in July 2006. Janalakshmi provides microfinance to urban poor. The company offers other loan products such as enterprise loans, housing loans, and individual loans.

Share Microfin Limited: -

Share Microfin Limited is a Micro finance Non-Banking Financial company, provides financial support to poor people. Currently company has 4352 employees that work across 914 districts in 19 States and helping needed households. Having its head quarter at Hyderabad, have 666 branches.

OBJECTIVE:

Microfinance Companies (MFCs), irrespective of legal forms, seek to create social
benefits and promote financial inclusion by providing financial services to clients of financially un-served and underserved households. Over time, the Microfinance Sector with become an integral part of the financial infrastructure for the vulnerable sections of society in India.
Hence, it is important to define core values and its fairness:

- Recommendations of the Malegam committee governing MFIs in India
- RBI guidelines for MFIs
- Code of conduct for the MFIs
- To provide low-income clients - women and men - and their families, with access to
Financial services that are client focused and designed to enhance their well-being, and are delivered in a manner that is ethical, dignified, transparent, equitable and cost effective.
- To ensure quality services to clients, appropriate to their needs, and delivered efficiently in a convenient and timely manner.
- To maintain high standards of professionalism based on honesty, non-discrimination and customer centricity.
- To provide complete and accurate information to clients regarding all products and services offered.
- To create awareness and enable clients and all other stakeholders to understand the
information provided with respect to financial services offered and availed.
- To ensure that clients are protected against fraud and misrepresentation, deception or unethical practices.

- To ensure that all practices related to lending and recovery of loans are fair and maintain respect for client's dignity and with an understanding of client's vulnerable situation.
- To safeguard personal information of clients, allowing disclosures and exchange of relevant information with authorized personnel only, and with the knowledge and consent of clients.
- To ensure high standards of governance and management.
- To monitor and report social as well as financial data.
- To provide clients formal and informal channels for feedback and suggestions.
- To consistently assess the impact of services in order to enhance competencies and serve clients better.
- To provide a formal grievance redressal mechanism for clients.

Microfinance Management: -

Financial management is planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise.[3] It means applying general management principle to financial resources of enterprise. The financial management includes **Financing Decisions, Investment Decisions and Dividend Policy Decisions**.

Microfinance Management of Indian Companies

Financial management with its three inter-related sub functions is a critical management issue for all MFCs. The prime functional areas of financial management of MFCs are **Investment**, **Financing, Asset management** and **Accounting policies**.

The aspects of financial management of MFC's

1) Investment-: Careful investment planning based on realistic assessment of safety, liquidity needs and return in that order. Limits on exposure to a particular instrument or institution limits on non-profit assets to less than 15 % to 20% of total assets.

2) Financing: - Comprehensive planning with scientific forecasting a long term to fund raising, proper contingency measures like cash credit facilities. A financing strategy that entails use of multiple and stable sources of funds leading to funding risk mitigation analyzing working capital needs and maximizing efforts to attain a stable liability structure even while generating sufficient funds with optimal cost and condition.

3) Asset Management: - Clear strategy to protect and manage assets through measure such as internal audit, portfolio tracking, portfolio diversification and client level insurance use of current account for collection. Limits for branch office bank accounts.

4) Accounting:- Cash basis for recognition of interest income on loans except in cases where loans are repayable in quarterly, half yearly or yearly installment basis – each cash basis recognition of income is commonly used practice and represent a conservative way of reporting income treating grant inflows as non operational income treating grant inflows as non operational income and reporting these inflows after determining operational profitability proving a detail disclosure statement with regard to the accounting policies adopted and also providing detail of each account head through schedules to the financial statement. Standardizing and clearly defining the scope of an external audit through the use of a formal contracting system.

Cash management is fast becoming an important aspect of financial management in microfinance. Clear cash transfer procedures, specific cash holding limits and emphasis on optimal utilization of excess cash are becoming the norm of most progressive MFCs. Cheque based disbursement and repayment. Apart from enhancing cash control, this reduces the delays in enhancing cheques and allow for speedy transfer of cash.

5) Internal Audit and Control: The Basel Committee on banking supervision defines internal control as a process affected by an entity's board of directors/trustees, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories-

- Verify the efficiency and effectiveness of operations.
- Assure the reliability and completeness of financial and management information.
- Comply with applicable laws and regulations.

Internal control is comprised of the following five inter-related components.

- Control environment
- Risk management
- Control activities
- Information and communication
- Monitoring

Impact of Microfinance Management on Indian Companies:

Financial management theory for MFC applies financial concept developed for traditional business to MFC. Many concepts pertaining to small business, financial management theory are applicable to MFC. However, though there are certainly significant similarities between Financial Management of MFC and traditional business, there are also some significant differences from financial perspective. Efficiency is an important concept that can be applied to MFC. It is by no means the only goal of an MFC. Indeed, MFC can be thought to have dual goals; **financial viability and outreach to poor.**[4]

CONCLUSIONS:

Areas of concern • Unjustified high rate of interest • Lack of transparency in interest rates and other charges • Multiple lending • Upfront collection of security deposits • Over-borrowing • Ghost borrowers • coercive methods of recovery.

The state led microfinance movement started in India with the introduction of SHG Bank Linkage Programme in the early 1990s. At present there arc two models of microfinance delivery in India-the Self Help Group Bank Linkage Model and MFI model. The chapter describes the evolution of microfinance in India and the policy measures extended by NABARD. The SHG Bank Linkage Model has emerged as dominant model in terms of number of borrowers and loan outstanding. In terms of coverage the model is considered to be the largest microfinance programme in the world. Reserve Bank of India, NABARD and SIDBI have taken a range of initiatives to provide a momentum to the Microfinance Movement in India. The objectives, uniqueness of SBLP, advantages, credit linkage models have been presented. The developments relating to evolution of various SHG bank linkage models of the Microfinance movement arc detailed. The chapter also discussed the institutional channel of Microfinance and the challenges faced by the Microfinance sector.

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