MICROFINANCE – MODULE -1- MATERIAL

Microfinance is a very popular term in today's financial market scenario. As the name suggests, microfinance refers to microcredit or micro-loan. Microfinance refers to a banking or financial service that is offered by banks or other financial institutions to individuals who belong to the low-income or underprivileged sections of the society. Microfinance can be in the form of loans, insurance, and savings deposits.

It is very helpful to small-sized enterprise owners as well as entrepreneurs with low capital. There are many people across the world, especially in India, who do not have access to proper financial assistance. They live in rural areas as well as in urban areas of India and do not have sufficient knowledge and access to take help from conventional sources of finance such as banks and investors.

Microfinancing is a great way to help poor individuals to be financially independent. They can use these funds offered by banks at very low rates of interest to start their own small venture or to make their other dreams come true. Many of the underprivileged people in the nation do not have any idea about saving money or managing their finances. When they acquire microfinance from a reliable institution, they will get exposure to managing money on their own and also about utilising funds in a sensible manner.

Microfinance is also offered to people who are interested in purchasing equipment or vehicles of high value that are required for carrying out their business activities. These can be tractors for agriculture, machines for manufacturing textiles, trucks for transportation of the goods created by the small entrepreneurs, etc.

Microfinancing is typically defined as the process of providing loans, credit, savings, and other necessary financial services and products to individuals who are extremely poor to get access to the regular sources of finance such as banks or other financial institutions.

Microfinance is provided to the underprivileged people with the belief that charity or philanthropy is not the solution to poverty.

Microfinance Work in India

Both banks and non-banking financial corporations (NBFCs) offer microfinance in India. There are also microfinance institutions in the country that are exclusively dedicated to offering microfinance to people. Microfinance institutions aim at getting people out of poverty and improving poor people's financial conditions. Microfinance institutions target poor people who are unemployed, who are or want to be entrepreneurs, and who are into farming.

Microfinance is usually procured by loan applicants through 3 modules and they include:

- Through banks, non-banking financial corporations, and microfinance institutions.
- By establishing good relations with banks or other financial institutions.
- By getting together as a group with a common goal of obtaining finance to create and develop new small business ventures or to make a living.

List of Microfinance Institutions in India

In our country, there are a number of institutions that offer microfinance exclusively. We will take a look at only a few select microfinance institutions in the country:

• Annapurna Microfinance Pvt Ltd • BSS Microfinance Pvt Ltd • Disha Microfin Pvt Ltd • Fusion Microfinance Pvt Ltd • **Arohan Financial Services Pvt Ltd** • Cashpor Micro Credit • Grama Vidiyal Micro Finance Ltd • EMFIL • Equitas Microfinance Pvt Ltd • Madura Micro Finance Ltd • **Satin Creditcare Network Ltd** • **S.M.I.L.E Microfinance Ltd** • Grameen Financial Services Pvt Ltd • Janalakshmi Financial Services Pvt Ltd	• Sonata Finance Pvt Ltd • **SKDRDP** • RGVN (North East) Microfinance Ltd • **Swadhaar FinServe Pvt Ltd** • Belstar Investment & Finance Pvt Ltd • Suryoday Micro Finance Pvt Ltd • SV Creditline Pvt Ltd • Future Financial Services Ltd • Ujjivan Financial Services Pvt Ltd • Utkarsh Micro Finance Pvt Ltd • Adhikar Microfinance Pvt Ltd • Uttrayan Financial Services Pvt Ltd • Chaitanya India Fin Credit Pvt Ltd

• SKS Microfinance Ltd • ASA International India Pvt Ltd • • Margdarshak Financial Services Ltd • Saija Finance Pvt Ltd • Samhita Development Network • Vedika Credit Capital Ltd • Sahayog Microfinance Ltd • Shikhar Microfinance Pvt Ltd • YVU Financial Services Pvt Ltd • Sanghamitra Rural Financial Services • Village Financial Services Pvt Ltd • Sarala Women Welfare Society	• ICNW Ltd • Growing Opportunity Finance Pvt Ltd • M Power Micro Finance Pvt Ltd • Rashtriya Seva Samithi • IDF Financial Services Pvt Ltd • Mahasemam Trust • Pahal Financial Services Pvt Ltd • Humana People to People India Sahara Utsarga Welfare Society

The Need for Microfinance in India

When an individual belonging to an underprivileged section of the society borrows microfinance from a bank or an NBFC, he or she can make use of the funds for being financially independent. It can help the borrower to be involved in a variety of activities that he or she could not have done without the microfinancing.

Many poor adults in the country may not have had sufficient funds during the early stages of their lives to be educated. Hence, they tend to miss out on the various employment options that are offered to educated people. Therefore, many of them remain unemployed.

There is another category of poor adults who are not educated, but are involved in unskilled labour. Unskilled labour refers to working in the segment that requires limited skills and that offers low wages to the labourers. Unskilled labourers have limited qualification such as high school or diploma or no qualification. Unskilled labour can include construction work, domestic help, security work, laundry, etc.

There is also a category of individuals who live in rural areas and semi-urban areas who are dedicated to farming. They are agriculturists and many of them earn very low incomes. Many of these farmers do not earn enough money for the hard work they put in. They do not have adequate funds to buy a land for sowing crops. They have to rely on rich landlords for renting land and they are forced to pay the little money that they make, to the landlords.

There are also many people who are originally from rural India who move to urban areas for alternative sources of employment apart from agriculture. They get into fields such as cooking, construction, restaurants, housekeeping, etc. and earn low incomes.

Financial Struggles of the Poor People in India

All the above-mentioned low-income individuals struggle to meet even the basic necessities to lead a life. They have very limited funds to get access to food, clothing, shelter, and proper healthcare facilities. Many of them are unable to send their children to school even for basic education.

Many of these people also cannot open bank accounts or apply for traditional loan options as they generally do not meet the minimum eligibility criteria. Banks have specific eligibility criteria where loan applicants or prospective depositors need to meet minimum income, age, and employment requirements. They also need to furnish relevant documents as proofs of identity that are issued by the central government. Many of these underprivileged people may not have any identity proof, which is again due to lack of access or lack of knowledge regarding the importance of government-sanctioned documents. This is where microfinance comes into the picture.

Microcredit or microfinance is offered to people keeping in mind about these above-mentioned requirements for regular bank loans. You can acquire small or micro loans at economical interest rates. Microfinance institutions chiefly work to help people who cannot acquire loans from normal banks. Hence, they make sure that loans are provided to the applicants at very low rates. They ensure that microfinance loan expenses are very minimal.

The purpose of microfinance is to assist low-income people who have the enthusiasm to make their lives better. It provides the right amount of capital to low-income people to start a new small business activity or to finance their child's education or to buy a small piece of land for carrying out agricultural operations. Microfinance not only supports an individual in starting something new to earn better, it also helps in sustaining their income to have a decent standard of living throughout their life.

Features of Microfinance

- Microfinance is typically offered to anyone who does not have a stable source of income due to unemployment. It is also given to those who are involved in contract labour or who work part-time.
- It is also given to anyone who does not have a proper credit history that can be verified. Lack of credit history will be mostly due to lack of access to acquire credit.
- There are also some applicants who may have a poor credit history due to high debts. They may have entered into debt situations due to shortage of funds to repay. They may also have got into debt troubles due to scams planned by unregistered moneylenders who tend to take advantage of poor people since they do not have much financial knowledge.
- Microfinance typically does not require loan applicants to submit any collateral while applying for the loan. These loans are usually unsecured in nature. Even if a microfinance institution does ask for a collateral, they are very reasonable. They understand the financial condition of the applicant.
- Microfinance is also offered to people living below poverty line (BPL) since they do not have access to other forms of financing.
- Microfinancing promotes simplified and small savings among poor people. It encourages them to build their funds step-by-step.
- Microfinancing offers repeat loans to applicants. This helps borrowers repay their loan promptly as the repayment tenure is very short. Once the small loan is repaid on time, the applicants will receive their next loan. A repeat loan is always offered to someone who has already borrowed and shown their capability in repaying it on time.
- Microfinance also intends to assist to individuals in securing good medical treatment when they have health issues.
- Generally, microfinance institutions approach clients instead of waiting for clients to approach them. They want impoverished people to be aware that there are inexpensive forms of financing.
- Microfinance institutions have easy and quick loan application processes.
- The interest rate for microfinance is very low.
- When a micro loan is offered, the lender does not ask the applicant for the purpose of lending. The loan can be utilised for any purpose.
- Some microfinance options also come with micro insurance. Micro insurance is offered as it helps the borrower in protecting his or her credit extensively. The micro insurance facility is very reasonably priced.
- Microfinance aims at developing financial sustainability among economically downtrodden people.
- Microfinance helps in creating more and more jobs. It enables uneducated people to be involved in some source of employment instead of staying idle.
- Microfinance institutions aim to eliminate interest rate ceilings as they believe that these ceilings can restrict poor people from securing finance.
- Microfinance focuses on offering financial transparency by offering loans to individuals without any hidden costs or fees or charges.
- Microfinance believes that poor people need a broad set of financial services apart from just loans. It also holds that these financial services should be simplified, easily accessible, economical, and flexible in nature. These services include cash transfer facilities, savings schemes with minimal or zero deposit, and micro insurance.

Microfinance for Farmers

There are exclusive microfinance loans that are provided to marginal farmers who need funds for enhancing their productivity of crops. This can be done when they invest in superior quality fertilisers, excellent farming tools, quality check processes, marketing of their crops, packaging of their output, transportation of their output, storage of their output in safe and hygienic warehouses, and proper sales techniques in order to secure the profits that they are entitled to after putting in so much effort for several months.

Many farmers in India do not have sufficient funds or knowledge to invest in these aspects of farming. Microfinance loans aim to guide farmers by providing them with accurate information and funds required to enhance their output.

Microfinance Options for Women

There are many households that have irresponsible male members who do not contribute towards saving money for the family. They tend to use money senselessly on things that are absolutely not required. Many of them spend money on alcohol, gambling, tobacco, etc. without keeping in mind about other expenditures. In such households, the female members are more responsible with money. They are very careful with the little money that they earn and spend it very judiciously. They make sure that the money is not within the reach of the men of the house.

Keeping this in mind, there are many banks, NBFCs, and microfinance institutions that extend microfinance exclusively to women in India. These women borrowers treat microfinance as their saviour and utilise the funds very sensibly.

These microfinance options for women also help in empowering women. There are many household where the men do not permit women to handle money. They expect women to only take care of domestic chores. However, the truth is that many women in several households have proved to be more financially responsible when compared to men. They do not waste money on unnecessary purposes.

Women also make sure that their children attend school sincerely without dropping out of school. When these women take microfinance for their various needs, they will ensure that the funds are utilised for a good purpose. They will ensure that their kids go to school, and this, in turn, will help brighten the future of the society.

One thing is for sure that women will repay their micro finance loans on time. Each installment of the loan will be paid promptly without any delay. This is a great relief for microfinance lenders. Microfinance loans can be repaid through equated monthly installments (EMIs) promptly. Moreover, women will make well-planned decisions for the household.

There are many self-help groups in Indian rural places that are made by women for women. Only women manage these groups and help each other in starting new low-cost business ventures such as handicraft ventures, horticultural ventures, artistry, pickle business ventures, paintings, trinket making activities, and many other business activities that they are good at doing. Since many of them are naturally talented at developing these creations at low costs, they can produce them on a large scale and sell them on various platforms and make profits gradually. The capital for these small business ventures can be generated from microfinance options. The borrower can repay the funds on a monthly basis through installments.

Most importantly, microfinance helps in job creation for women. In most regions of the country, women are forced to be unemployed and are not allowed to step out of their homes. They are restricted to the limits of their house. With the generation of microfinance, women are given an opportunity to showcase their entrepreneurial skills and management abilities. Microfinance also brings women together and encourages them to work as a team to achieve the ultimate goal of being independent. They do not have to rely on men for money or for other aspects. They also do not have to wait for the approval of the male member in the house.

Objectives and Goals of Microfinance

- Microfinance primarily works towards making the disadvantaged population self-determined without having to depend on their relatives or friends for funds.
- It aims to bring a financial change among the poor people with the help of a community-based approach.
- It intends to organise and conduct simple training programmes for unemployed people so that they have some means of livelihood.
- Microfinance also intends to assist disabled people who are economically underprivileged. It aims to help them find some source of employment or artistry so that they can fend for themselves.
- Microfinance aims to help women of poor families. Institutions that offer microfinance believe that women are more responsible with money and hence, they have exclusive microfinance loan options specially designed for women borrowers.
- Microfinance intends to bring gender equality by encouraging women to equally take part in household decision making, financial decision making, and also earn money independently by engaging in any form of employment.
- It intends to enhance operations and activities at the grass root level.
- Microfinance lays emphasis on optimum utilisation of local resources available in nearby areas and villages in order to minimise transportation costs for bringing resources, etc.
- Microfinance aims to raise the wages of the underprivileged people so that their lives can be improved at least a little.
- Microfinance aims at attaining socio-economic development at the most basic level of the society.
- It serves as a great instrument to eradicate poverty.
- It aims to offer loans, accounts, and other financial services to people without asking them for collaterals such as a mortgage or any immovable property or guarantors.

Origin of Microfinance in India

Microfinance has been quite a popular and effective mode of financing in the Indian subcontinent. From an early period, people in India used to be involved in lending and credit operations through individual money lending, chit funds, and other indigenous financial institutions. All these modes practiced the system of microfinance very successfully.

The modern and systematic method of offering microfinance or microcredit to individuals started in the 1970s in India.

It chiefly originated when the Grameen Bank was started by Professor Mohammed Yunus in the year 1976 in Bangladesh. It was a pilot project of having a unique lending system where micro loans are offered to the disadvantaged sections of the society, especially the rural poor. This programme was launched to introduce the concept of financial services to the rural poor who never had access to any form of credit.

This iconic event led to the conversion of the project into an autonomous bank. This was done through a government legislation and it came to be known as Grameen Bank. The bank has assisted several poor people in both Bangladesh and India to be financially secure and to improve their financial conditions. This even resulted in the creation of a 'Grameen model' which is used by many financial institutions and banks to offer affordable loans to the poor.

There was also Self-Employed Women's Association (SEWA) that was started by Ela Bhatt. This organisation was unique in its own way. It was an all-women's bank. It is the first microfinance bank in the country. It was set up in Ahmedabad, Gujarat in the year 1972. It was set up to help women of low-income groups to earn the rights that they are entitled to. It works towards making women independent by offering them the right funds at the right time to help them be self-employed. The institution also offers first-class training to women to help them specialise in handicrafts and other forms of artistry.

India also saw the establishment of National Bank for Agriculture and Rural Development (NABARD) which is exclusively committed to offering inexpensive modes of credit and bank accounts to the people living in rural areas. These people are mainly engaged in agriculture and other artistry activities in the country. The bank observed many unique banking models in order to offer high-quality and affordable financial solutions to the unbanked people. The bank also focused on including women by encouraging them to open bank accounts in their names and taking small loans to meet their requirements. The bank also promoted rural people to be involved in alternative activities apart from agriculture in order to earn additional income.

The Regional Rural Banks (RRBs) were launched in 1975-76. These banks were established to have banking operations in the rural areas and semi-urban areas of the various states of the country. Some of the regional rural banks are also set up in urban areas where they offer banking services to the poor people of the society.

There is also the Micro Finance Institution (MFI) that was set up in India in the year 1974. The operations of the institution started to pick up only in the 1990s.

All these institutions had a common objective and that was to provide financial assistance to the unbanked people of the society. They worked on setting up many bank branches in the most remote areas of the country. They mainly focussed on empowering the disadvantaged sections of the society.

Until the banks in India were nationalised in the year 1969, co-operative banks were the only banks that provided small loans to the economically underprivileged sections of the society. Small borrowers did not have any other source of financial assistance. Loan applicants had to furnish some form of security to the bank those days. They also had to make arrangements for a guarantor in order to apply for a loan. The chief objective of banking was profit, which is still prevalent in today’s commercial banks. Institutions offering microfinance started to emerge and began to change this profit-oriented banking scenario. Nationalisation of banks also changed the old banking setup and started to build branches in different rural parts of the nation.

Microfinance institutions also enhanced the condition of self-help groups. More and more self-help groups were created by impoverished people with the objective of making them financially self-sufficient. With these groups, the members did not have to go begging rich moneylender who mainly lent money solely to make profits. They also did not have to depend on others to get any form of employment. They created their own small venture by coming together by honing their skills.

Different Microfinance Models in India

India has a number of institutions that offer microfinance exclusively. Each institution uses a particular model or a blend of different models in order to provide microfinance to applicants. These microfinance institutions have embraced both conventional and advanced ideas of lending in order to distribute credit evenly in the society without uneven accumulation of credit among the rich people. There are many microfinance models in the country and this could be because of the high number of social and cultural groups, the large geographical size of the nation, the presence of multiple economic classes, and a solid existence of non-governmental organisations that are dedicated to uplifting the socio-economic condition of the disadvantaged people of the country.

The main six categories of microfinance models that are followed in India include:

1. Self-help group model

A self-help group (SHG) is described as a group of 5 to 20 individuals who belong to the low-income class. Each group member typically contributes funds from their own savings and then this money is pooled in together. These funds are then utilised to support their common goal of improving their lifestyles and to make themselves financially secure.

They can use this money to obtain training to create superior-quality products. They receive training not only to make products, they also get trained on how to market, promote, and sell their products. Many of the poor people are not aware of how to reach out to customers. Some of them may not know how to assess their creation and fix an appropriate price for their product. Hence, many of them may fail to make profits when they sell products without proper knowledge. Being a part of a self-help group will give them proper awareness about how to make a product, price it, package it, promote it, market it, and sell it to the end-customer efficiently.

In the self-help group model for microfinance, the members of the group are encouraged to meet on a regular basis to discuss their savings, new developments, and credit operations. The members can also plan future activities for achieving their big goals step by step.

2. Grameen model

The Grameen model to distribute microfinance originated in Bangladesh. After seeing the success of the model in Bangladesh, many institutions in India started to adopt it by making some adjustments. A few of the institutions that acquired the principles of the Grameen model are CASHPOR Financial and Technical Services Limited, SHARE Microfinance Limited, Activists for Social Alternatives (ASA).

This particular model believes in providing a mandatory training course to the group members for at least 7 days. The model will offer microfinance to an applicant without asking for any collateral at low costs. The loan application process has minimum or zero paperwork and is processed very quickly keeping in mind the urgency for funds.

Some groups that apply the Grameen model have a Group Recognition Test (GRT) that refers to a screening process to divide group members into serious and non-serious groups. Every member must compulsorily save some money every week. This model is very particular about group discipline. This is generally achieved with the help of peer pressure. Each group member motivates the other to be very careful with the money that they borrow from their lender. Under this model, a loan typically ranges from Rs.4,000 to Rs.10,000.

3. Co-operative credit union model

These organisations apply the co-operative model to offer microfinance in rural areas. The Cooperative Development Forum (CDF), Hyderabad has applied the co-operative credit union model successfully by giving primary importance to savings. The main entities in the CDF are women's or men's thrift co-operatives (WTCs and MTCs). They have small groups of individuals wherein each group has a particular leader who heads group meetings, accumulates the savings of each group member, and looks into the repayment of loans. The group leader is responsible for making sure all small loans are repaid promptly by each member.

The Cooperative Development Forum (CDF), Hyderabad began functioning with units of small size. Soon, they started to create larger units in order to increase the impact. The CDF encourages members to focus more on their thrift cooperatives instead of the group goals. Each group's size can differ. This will depend on the group leader's ability and the leader will be appointed according to the votes of group members.

4. Federated self-help groups (SHGs) or SHG Federation model

A normal self-help group (SHG) is typically consistent of a few members with the aim of making each member self-sufficient with adequate funds and high-quality equipment to produce first-class output. It is usually small in size. Due to the success of these groups, there was a need for a large-scale self-help group. This led to the establishment of federated self-help groups. A federated self-help group refers to a large scale self-help group with a large number of members. It is a federation of multiple self-help groups. A federation of self-help groups will have around 1000 to 2000 members whereas a single self-help group will have only up to 20 members.

A federated self-help group model has a very interesting arrangement where there are 3 levels. The main and basic level is the self-help group. The middle level in this arrangement is a cluster. The highest unit in this arrangement is a top body that indicates the complete self-help group.

Since a federated self-help group is big in nature, at the cluster level, 2 members of every self-help group will serve as representatives of that particular group. These representatives will be required to get together on a frequent basis in order to update statuses of the group. They will need to discuss funds, utilisation of funds, production, changes in plans and schedules, etc. This cluster level is also responsible for providing details and updates about the entire self-help group to the top body. If there are any updates from the top body or apex body, then the cluster will communicate it to the group.

The cluster level serves as a form of intermediary between the whole group and the apex body. Leaders of these clusters are required to have excellent monitoring and team building skills. They need to check the status of the group's operations on a regular basis. The daily and weekly productivity of each team will be checked and feedback and support will be provided by the cluster leaders to the group members.

This cluster level in the federated self-help group model helps in making the entire system decentralised.

Decentralisation is very effective and helpful as each member is responsible for his or her duties. Also, there is no sense of unfair hierarchy in the system. Each person is given an opportunity to showcase his or her skills. Moreover, every member has the right to offer ideas for the development of his or her self-help group. The microfinance funds allocated for such a model will help in the distribution of funds in an even manner. There will be no scope for misappropriation or misuse of funds. Each member will make sure that the money is used for the overall development of the self-help group.

The apex body or the executive body in a federated self-help group has an important responsibility of being the intermediary between the entire self-help group and the non-government organisation (NGO) or any other organisation that is committed to assisting the group in carrying out its activities. This apex body will have around 10 to 15 members.

The best part about federations of self-help groups is that these groups also help certain NGOs as there are many NGOs in our country that have fewer funds and resources but that aim at reaching out to the less fortunate masses of the society. These federations of self-help groups assist these NGOs to bring a change to the society effectively even though they do not have adequate resources.

Some of the organisations in the nation that apply the federated self-help group model include Chaitanya, PRADAN, Dhan Foundation, SEWA, and lots more. These federated self-help groups have the competency to handle the constraints experienced by single self-help groups. Most of these federations are incorporated under the Societies Registration Act.

These federated self-help groups enable members to apply for bigger loan amounts. Moreover, these groups assist members to save more money efficiently. Due to the large scale at which these groups function, they have the ability to offer additional financial services to members such as micro insurance.

Micro insurance for microfinance is extremely necessary and helpful. It protects the borrower's funds against damage, loss, or any other troubles. When there is micro insurance, the borrower need not worry about its security. When one takes a loan, especially a micro loan, he or she will need to be very careful and ensure that it is safe and secure. One needs to understand that a micro loan is offered to the less fortunate sections of the society. In such a case, when the funds are stolen or lost or misplaced, it is very tough for the borrower to get a loan again. He or she will also have difficulty in recovering the lost funds.

With a micro insurance policy which is offered at very low premium rates, the borrower can have a peace of mind without worrying about the safety of the funds. Even if something unfortunate happens with the microfinance borrowed from a federation of self-help groups, then this micro insurance cover will take care of everything. The unforeseen losses and costs will be compensated and reimbursed by the micro insurance policy at an affordable price.

A federation of self-help groups also takes care of something very important, which is the prevention of idle funds. Many small self-help groups sometimes face the issue of having too many idle funds or even insufficient amount of funds. With a federated self-help group, there is no scope for the formation of idle funds. They use well-planned techniques to direct the flow of money accurately. When there is a proper flow of funds, there will not be any chance for the creation of idle funds. These federations always work to make sure that the demand for micro loans is lesser than the actual supply of funds that is obtainable. In single self-help groups, demand for credit is more when compared to the availability of funds. A federation of self-help groups works towards maximising the distribution of local capital in order to gain maximum returns on this capital.

Federations of self-help groups also assist individual self-help groups in recovering loans proficiently. They also encourage and promote new or upcoming self-help groups. They function in a very flexible and relaxed manner. They promote financial as well as non-financial exchanges between different groups. They encourage collaboration of various groups in order to achieve goals together. They also help other self-help groups in establishing and sustaining relations with agencies and NGOs.

These federations encourage self-help group members to save money in different ways. The federations recommend multiple savings methods to members so that they can make savings with the help of the group and also through other modes. A few of these federations have designed certain savings schemes that allow members to deposit their money and earn savings over a particular period. They also attract funds from external sources and lend them to members.

5. Rotating Savings and Credit Associations (ROSCAs) model

Under this model, funds are offered to groups of individuals through unconventional means. The members of such associations include individuals who have certain common features such as ethnicity, community, language, professions, occupations, etc. These members contribute funds on a regular basis and utilise them for attaining a common goal.

The whole model works according to a systematic way where every member receives funds within a particular time frame and he or she is required to repay it before the deadline. After this member, another member will start the whole micro loan process. It functions in the form of a cycle. Unless one member completes the repayment cycle on time, a new member cannot procure a loan. Hence, with the help of peer pressure and efficient monitoring skills from the association’s leaders, each member will make sure that the loan is repaid promptly without any delay. Due to fear if the loan cycle will stop because of any one person, every member ensures that each loan is repaid on time.

Chit fund companies in India carry out their lending operations just like ROSCAs. They encourage the underprivileged people of the society to save money and accumulate lump sums for the purpose of purchasing high-value products. A chit fund scheme will have a fixed tenure and a fixed value. Every member will be required to pool in money on a monthly basis and this will be utilised for the goals of a company. These ROSCAs or chit fund models help in eliminating the gap between different sections of the society that is present due to conventional banking ways.

6. Microfinance companies

In India, microfinance companies can be registered as a non-banking financial company (NBFC) under Companies Act or Reserve Bank of India (RBI). An NBFC engages in accumulating funds and using them for offering credit and other financial services to other people. An NBFC generally provides personal loans, car loans, two-wheeler loans, crop loans, agricultural loans, and lots more. Non-banking financial companies can offer both regular loans as well as micro loans to the less fortunate people of the society. These NBFCs can be regulated by the Reserve Bank of India (RBI) or the Companies Act.

Microfinance companies function as separate legal entities that offer microfinance to the needy. Nowadays, microfinance companies are not seen as organisations that are only involved in social service. They are seen as proper business entities that work towards offering concrete financial solutions to the impoverished people of the society. These companies hold that the poor people do not need charity but ways to be financially independent. They are committed to improving the socio-economic situation of the poor individuals of the society.

Microfinance companies can be non-profit organisations, profit organisations, or mutual benefit institutions. Non-profit organisations work solely for empowering the needy by concentrating on their economic and societal conditions. Profit organisations work by registering themselves as an investment trust, an association of persons, or a company that will be a bank or an NBFC. Mutual benefit institutions function for the purpose of helping only its members.

Microfinance Help Borrowers in India

There are many impoverished people in the country who do not have any knowledge about alternative sources of finance apart from conventional bank loans. They also do not know that they can engage in other sources of employment to earn a livelihood. However, they do have the need for funds in order to meet their essential necessities. With the help of microfinance, they can learn to procure inexpensive forms of credit for a short period and also learn to manage their expenses efficiently. They will understand how to allocate money for different purposes and save a particular amount for emergencies. They can also save money to utilise it for other big purposes.

Microfinance will teach a less fortunate person to slowly get out of his or her economic situation. A few poor people may also be in high-debt situations due to previous credit. Microfinance can help them tackle previous debts proficiently as they will learn to manage their finances.

Microfinance has succeeded in making poor people and poor enterprises sustainable and strong by providing them with funds, training, production skills, access to market platforms, insurance, innovation, technology, and equipment. They aim to continue to work with the same goals by using advanced techniques and newer ideas

FINANCIAL SYSTEM

A financial system (within the scope of finance) is a system that allows the exchange of funds between lenders, investors, and borrowers. Financial systemsoperate at national, global, and firm-specific levels. ... Money, credit, and finance are used as medium of exchange in financial systems.

A financial system (within the scope of finance) is a system that allows the exchange of funds between lenders, investors, and borrowers. Financial systems operate at national, global, and firm-specific levels.[1] They consist of complex, closely related services, markets, and institutions intended to provide an efficient and regular linkage between investors and depositors.[2]

Money, credit, and finance are used as medium of exchange in financial systems. They serve as a medium of known value for which goods and services can be exchanged as an alternative to bartering.[3] A modern financial system may include banks (public sector or private sector), financial markets, financial instruments, and financial services. Financial systems allow funds to be allocated, invested, or moved between economic sectors. They enable individuals and companies to share the associated risks

Financial institutions

Financial institutions provide financial services for members and clients. It is also termed as financial intermediaries because they act as middlemen between the savers and borrowers.

Banks

Banks are financial intermediaries that lend money to borrowers to generate revenue. They are typically regulated heavily, as they provide market stability and consumer protection. Banks include:[

- Public banks
- Commercial banks
- Central banks
- Cooperative banks
- State-managed cooperative banks
- State-managed land development banks

Non-bank financial institutions

Non-bank financial institutions facilitate financial services like investment, risk pooling, and market brokering. They generally do not have full banking licenses or are not supervised by a bank regulation agency.[5] Non-bank financial institutions include:[6]

- Finance and loan companies
- Insurance companies
- Mutual funds
- Commodity traders

Financial markets are markets in which securities, commodities, and fungible items are traded at prices representing supply and demand. The term "market" typically means the institution of aggregate exchanges of possible buyers and sellers of such items.

Primary market

The primary market (or initial market) generally refers to new issues of stocks, bonds, or other financial instruments. The primary market is divided in two segment, the money market and the capital market.

Secondary markets

The secondary market refers to transactions in financial instruments that were previously issued.

Financial instruments

Financial instruments are tradable financial assets of any kind. They include money, evidence of ownership interest in an entity, and contracts.[7]

Cash instruments

A cash instrument's value is determined directly by markets. They may include securities, loans, and deposits.

Derivative instruments

A derivative instrument is a contract that derives its value from one or more underlying entities (including an asset, index, or interest rate).[8]

Financial services

Financial services are offered by a large number of businesses that encompass the finance industry. These include credit unions, banks, credit card companies, insurancecompanies, stock brokerages, and investment funds.

Microfinance initially had a limited definition - the provision of microloans to poor entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients were: (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.

Microfinance is a broad category of services, which includes microcredit. Microcredit is only about provision of credit services to poor clients; only one of the aspects of microfinance, and the two are often confused. Critics often point to some of the ills of micro-credit that can create indebtedness. Due to diverse contexts in which microfinance operates, and the broad range of microfinance services, it is neither possible nor wise to have a generalized view of impacts microfinance may create. Many studies have tried to assess its impacts.[2]Proponents often claim that microfinance lifts people out of poverty, but the evidence is mixed. What it does do, however, is to enhance financial inclusion.

Over the past centuries, practical visionaries, from the Franciscan monks who founded the community-oriented pawnshops of the 15th century to the founders of the European credit union movement in the 19th century (such as Friedrich Wilhelm Raiffeisen) and the founders of the microcredit movement in the 1970s (such as Muhammad Yunus and Al Whittaker), have tested practices and built institutions designed to bring the kinds of opportunities and risk-management tools that financial services can provide to the doorsteps of poor people. In developing economies and particularly in rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. This is often the case when people need the services money can provide but do not have dispensable funds required for those services, forcing them to revert to other means of acquiring them.

The **Importance of Microfinance** . **Microfinance** programs provide small-scale financial services to low-income individuals. Loans are designed to foster sustainable economic empowerment and capacity building for people in developing regions. ... Lending that led to unmanageable debt for many individual borrowers.

In their book *The Poor and Their Money*, Stuart Rutherford and Sukhwinder Arora cite several types of needs:

- ***Lifecycle Needs***: such as weddings, funerals, childbirth, education, home building, widowhood and old age.
- ***Personal Emergencies***: such as sickness, injury, unemployment, theft, harassment or death.
- ***Disasters***: such as campfires, floods, cyclones and man-made events like war or bulldozing of dwellings.
- ***Investment Opportunities***: expanding a business, buying land or equipment, improving housing, securing a job, etc

Microfinance products

Offering financial services to poor people in developing countries is expensive business. The cost is one of the biggest reasons why traditional banks don´t make small loans, the resources requierd for a 50$ loan is the same as for a 1000$ loan.

MFIs also have big personnel and administration costs. Field staff managers must perform village surveys before entering a village, conduct interviews with potential borrowers, educate the borrowers in credit discipline, travel to the villages every week to collect interest and distribute loans and control that the loans are being used for the given purpose.

The microcredit loan cycles are usually shorter than traditional commercial loans with terms from typically six months to a year with payments plus interest, payed weekly. Shorter loan cycles and weekly payments help the borrowers stay current and not become surprised by large payments. Clearly the transaction-intense nature of weekly payment collections, often in rural areas, is more expensive than running a bank branch that provides large loans to economically secure borrowers in a metropolitan area. As a result, MFIs must charge interest rates that might sound high.

In order to be able to lend out money, the microfinance institutions must in addition borrow from the traditional finance sector with commercial perspective. There´s always about 1-2% loss on loans due to people not paying back. To be able to expand business the MFIs must also make some profit, at least 1-2%. All in all it´s easier to understand why the MFIs charge their customer interest rates which in first sight might appear high. With a growing market, better economics of scale and increasing efficiency the cost will reduce and lower interest rates are able.

For a financial institution to scale and remain sustainable, at a bare minimum it has to cover its costs. A large bank can charge lower rates in order to recoup its costs. Because of smaller loan size and more transactions, the MFI has to charge higher minimum rates.

Data from the MicroBanking Bulletin reports that 63 of the world's top MFIs had an average rate of return, after adjusting for inflation and after taking out subsidies programs, of about 2.5% of total assets. This lends to the hope that microfinance can be sufficiently attractive for investors, as well as the mainstream in the retail banking sector.

Typical microcredit products look like this (the numbers are only hypothetical):

Product	Purpose	Terms	Interest rate
Income Generation Loan (IGL)	Income generation, asset development	50 weeks loan paid weekly	12.5% (flat) 24% (effectiv
Mid-Term Loan (MTL)	Same as IGL, available at middle (week 25) of IGL	50 weeks loan paid weekly	12.5% (flat) 24% (effectiv
Emergency Loan (EL)	All emergencies such as health, funerals, hospitalization	20 weeks loan	0% Interest free
Individual Loan (IL)	Income generation, asset development	1-2 years loan repaid monthly	11% (flat) 23% (effective)

The Income Generating Loan is used for a variety of activities that generate income for their families. Clients submit a loan application and based on approval receive the loan after one week. Loans are paid in 50 equal, weekly installments. After completion of a loan cycle, the client can submit a loan application for a future loan. The approach with smaller short-term loan is to avoid long-term economic problems with bigger loans.

The Mid Term Loan is available to clients after 25 weeks of repaying their IGL loan. A client is eligible for a MTL if the client has not taken the maximum amount of the IGL. The residual amount can be taken as a MTL. The terms and conditions of the MTL are otherwise exactly the same as IGL.

The Emergency Loan is available to all clients over the course of a fiscal year. The loan is interest free and the amount and repayment terms are agreed upon by the

MFI and the client on a case by case basis. The amount is small compared to the income generating products and is only given in times of dire need to meet expenses such as funerals, hospital admissions, prenatal care and other crisis situations.

The Individual Loan is designed for clients and non clients that have specific needs beyond the group lending model. Loans are given to an individual outside of the group lending process. Amounts are typically higher than that of the income generating loan and repayments are less frequent. Applicants must complete a strict business appraisal process and have both collateral and a guarantor.

Microfinance is not panacea from all troubles, this also means that not any poor person can obtain the loan. In particular, representatives of very poor population, lacking stable income, living by means of chance earnings, and particularly having debts (in relation to community facilities, relatives, friends, etc...) cannot be clients of microfinance, since in case of microcredit non-repayment they will have more debts, becoming poorer. For such people special programs of social assistance are needed, which are able to support main needs of people living in the poorest dwellings, lacking garments and food.

There is some restrictions regarding what the money is used for. Usually micro credits can´t be used for the purposes like:

- Payments of other loans or other debts;
- Production of tobacco and liquor;
- Forming turnover capital of trade and intermediary business;
- Organization or purchasing products for gambling or entertainment services for the population;
- Establishing trading points;
- Purchase of property that´s not used for business.

In the microfinance sector there´s other services expanding as well. The poor need, like all of us, a secure place to save their money and access to insurance for their homes, businesses and health. Microfinance institutions are now innovating new products to help meet these needs, empowering the world's poor to improve their own lives. Products common used in the microfinance sector today is:

- **Micro savings** – A possibility to save money without no minimum balance. Allows people to retain money for future use or for unexepected costs. In SHGs the members save small amounts of money, as little as a few rupees a month in a group fund. Members may borrow from the group fund for a variety of purposes ranging from household emergencies to school fees. As SHGs prove capable of managing their funds well, they may borrow from a local bank to invest in small business or farm activities. Banks typically lend up to four rupees for every rupee in the group fund;
- **Micro insurance** – Gives the entrepreneurs the chance to focus more on their corebusiness which drastically reduces the risk affecting their property, health or workingpossibilities. The is different types of insurance services like life insurance, property insurance, healt insurance and disability insurance. The spectrum of services in this sphere is constantly expanded, as schemes and terms of providing insurance services are determined by each company individually;

- **Micro leasing** – For entrepreneurs or small businesses who can´t afford buy at full cost they can instead lease equipment, agricultural machinery or vehicles. Often no limitations of minimum cost of the leased object;
- **Money transfer** – A service for transferring money, mainly overseas to family or friends. Money transfers without opening current accounts are performed by a number of commercial banks through international money transfer systems such as Western Union , Money Gram, and Anelik. On the surface they may seem like small money transfers, but when one considers that such transactions take place millions of times around the world each week, the numbers start to become impressive. According to the World Bank, the annual global market for remittances – money transferred home from migrant workers – is around 167 billion US dollars. The estimated total is closer to 230 billion dollars if one counts unregulated transactions. Remittances are also an important source of income for many developing countries including India, China and Mexico, all of which receive over 20 billion dollars each year in remittances from abroad.
  - **introduction to Micro Finance:**
  - Introduction to Micro Finance Microfinance is the provision of financial services to low income clients lending groups including consumers and the self employed , who traditionally lack access too banking and related services. Microfinance is a broad category of services which include microcredit. Microcredit can be defined as the provision of credit services to poor clients.
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  - **Scenario of Micro Finance in India:**
  - Scenario of Micro Finance in India India's population is more than 1000 million, around 350 million, are living below the poverty. Only 20% access loan from the formal sources and 80% from the informal sources. Out of that 20% only 10% have access to Micro finance. Annual credit demand by the poor is estimated to be about Rs 60,000 crores . And only 12,000 crores are disbursed. (April 09) Customers of Micro Finance are "Small and marginal farmers", " rural artisans" and "economically weaker sections"
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  - **Advantages of Micro Finance:**
  - Advantages of Micro Finance •It allows the poor to receive a loan It empowers women •It creates long-term financial independence
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  - **Self Help Group Model:**
  - Self Help Group Model In SHG Model the members form a group of around twenty members. The group formation process may be facilitated by an NGO or by the MFI or bank itself, or it may evolve from a traditional rotating savings and credit group (ROSCA) or other locally initiated grouping.
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  - **CHARACTERSTICS OF SHG:**
  - CHARACTERSTICS OF SHG SMALL GROUP OF POOR (10-20) PREFERABLY WOMEN SIMILAR SOCIO-ECO BACKGROUND UNITED FOR COMMON CAUSE NO NEED FOR REGISTRATION GROUP FUNCTIONING / DISCIPLINE SAVINGS / BORROWING / LENDING
  -
  - **Stages of Group Dynamics:**
  - Stages of Group Dynamics There are four stages to form an SHG : Forming : In this stage, people come together informally and meet. They are encouraged to talk about their problems and solutions. During this stage, based on the felt need, homogeneous groups emerge naturally. Storming : During this stage conflicts between individual interest and groups interest surface and are dealt with. The leadership emerges. The procedures, rules and roles are established. Norming : Trust develops among group members leading to cohesiveness in the group. Performing : This is the final stage when the group becomes operational and starts functioning for the benefit of its members.
  - **WHO FORMS SHG:**
  - WHO FORMS SHG FACILITATOR RETIRED SCHOOL TEACHER/ GOVT. SERVANT HEALTH WORKER/ FIELD STAFF/ STAFF OF ANY DEVELOPMENT AGENCY BANKER UNEMPLOYED EDUCATED PERSON HAVING INCLINATION TO HELP A MEMBER OF FARMERS' CLUB

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- **GOALS OF SHGS:**
- GOALS OF SHGS Self-help groups are started by non-profit organizations (NGOs) that generally have broad anti-poverty agendas. Self-help groups are seen as instruments for a variety of goals including empowering women, developing leadership abilities among poor people, increasing school enrolments, and improving nutrition and the use of birth control. Financial intermediation is generally seen more as an entry point to these other goals, rather than as a primary objective. This can hinder their development as sources of village capital, as well as their efforts to aggregate locally controlled pools of capital through federation, as was historically accomplished by credit unions.
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- **BENEFITS OF FINANCING TRROUGH SHGS:**
- BENEFITS OF FINANCING TRROUGH SHGS An economically poor individual gains strength as part of a group. Besides, financing through SHGs reduces transaction costs for both lenders and borrowers. While lenders have to handle only a single SHG account instead of a large number of small-sized individual accounts, borrowers as part of an SHG cut down expenses on travel (to & from the branch and other places) for completing paper work and on the loss of workdays in canvassing for loans
-
- **NABARDS SHG BANK LINKAGE PROGRAM:**
- NABARDS SHG BANK LINKAGE PROGRAM Many self-help groups, especially in India, under NABARD's SHG-bank-linkage program, borrow from banks once they have accumulated a base of their own capital and have established a track record of regular repayments. This model has attracted attention as a possible way of delivery microfinance services to poor populations that have been difficult to reach directly through banks or other institutions. "By aggregating their individual savings into a single deposit, self-help groups minimize the bank's transaction costs and generate an attractive volume of deposits. Through self-help groups the bank can serve small rural depositors while paying them a market rate of interest." NABARD estimates that there are 2.2 million SHGs in India, representating 33 million members, that have taken loans from banks under its linkage program to date. This does not include SHGs that have not borrowed.. "The SHG Banking Linkage Programme since its beginning has been predominant in certain states, showing spatial preferences especially for the southern region – Andhra Pradesh, Tamil Nadu, Kerala and Karnataka. These states accounted for 57 % of the SHG credits linked during the financial year 2005-2006.".
-
- **Steps Followed by SHG:**
- Steps Followed by SHG The SHG members decide to make regular savings contributions. These may be kept by their elected head, in cash, or in kind, or they may be banked. The members start to borrow individually from the SHG, for purposes, on terms and at interest rates decided by the group themselves. The SHG opens a savings account, in the group's name, with the bank or MFI, for such funds as may not be needed by members, or in order to qualify for a loan from the bank. The bank or MFI makes a loan to the SHG, in the name of the Group, which is then used by the Group to supplement its own funds for on-lending to it members.
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- **The Grameen Model:**
- The Grameen Model Introduction The Grameen Bank started in 1976 by the Nobel Laureate, Professor Muhammad Yunus in Bangladesh. Grameen today has some 2468 branches in Bangladesh, with a staff of 24,703 people serving 7.34 million borrowers from 80'257 villages. Grameen's methods are applied in 58 countries including the United States. Grameen Bank borrowers own 94% of the bank. The remaining 6% are owned by the government.
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- **Working Model of Grameen Bank :**
- Working Model of Grameen Bank Holding regular and usually weekly meetings which are supervised by a MFI worker who maintains the records, where savings and repayments are collected and handed over to the MFI worker, Organising contributions to one or a number of group savings funds, which can be used by the group for a number of purposes, usually only with the agreement of the MFI which maintains the group fund accounts, Guaranteeing loans to their individual members, by accepting joint and several liability, by raising group emergency funds and by accepting that no members of a Group will be able to take a new loan if any members are in arrears, Arising from the above, appraising fellow-members' loan applications, and ensuring that their fellow-members maintain their regular savings contributions and loan repayments.
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- **Joint Liability Group (JLG):**
- Joint Liability Group (JLG) A joint Liability Group (JLG) is an informal group comprising preferably of 4 to10 individuals coming together for the purposes of availing bank loan either singly or through the

group mechanism against mutual guarantee. The JLG members would offer a joint undertaking to the bank that enables them to avail loans. The JLG members are expected to engage in similar type of economic activities like crop production.

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- **Working Of Joint Liability Group:**
- Working Of Joint Liability Group Members should be of similar socio economic status and background carrying out farming activities and who agree to function as a joint liability group. The groups must be organised by the likeminded farmers and not imposed by the bank or others. The members should be residing in the same village/ area and should know and trust each other well enough to take up joint liability for group/ individual loans.
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- **Difference between JLGs and SHGs:**
- Difference between JLGs and SHGs SHGs (Self Help Groups) JLGs (Joint Liability Groups) Minimum 15 members and maximum 20. Minimum 3 members and maximum 5. Meeting is compulsory. N o necessary of compulsory meeting. Bank loan is available. They get loans only from MFIs. G ets the benefit of government scheme. Individual responsibility. There is no benefit. They share responsibility and stand as guarantee for each other.
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- **Cooperative Society:**
- Cooperative Society A Co-operative Society is formed as per the provisions of the Co-operative Societies Act, 1912. At least ten persons having the capacity to enter into a contract with common economic objectives, like farming, weaving, consuming, etc. can form a Co-operative Society.
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- **Characteristics of Co-operative Society:**
- Characteristics of Co-operative Society Open membership Voluntary Association State control Sources of Finance Democratic Management Service motive Separate Legal Entity Distribution of Surplus Self-help through mutual cooperation

The four most important Micro Finance models prevalent in India are:

Model I - individuals or group borrowers are financed directly by banks without the intervention/facilitation of any Non-Government Organisation (NGO).

Model II - borrowers are financed directly with the facilitation extended by formal or informal agencies like Government, Commercial Banks and Micro-Finance Institutions (MFIs) like NGOs, Non Bank Financial Intermediaries and Co-operative Societies;

Model III - financing takes place through NGOs and MFIs as facilitators and financing agencies;

Model IV - is the Grameen Bank Model, similar to the model followed in Bangladesh.

In India, Model II of MF constitutes three-fourths of total micro-financing where activity/joint liability/Self-Help Groups are formed and nurtured by facilitating agencies and are linked directly with banks for the purpose of receiving credit.

Microfinance - Credit Lending Models

Introduction

"Microfinance:Credit Lending Models" is an attempt to document the various models currently being used by microfinance institutions throughout the world.

A total of 14 models are described below. They include, associations, bank guarantees, community banking, cooperatives, credit unions, grameen, group, individual, intermediaries, NGOs, peer pressure, ROSCAs, small business, and village banking models.

In reality, the models are loosely related with each other, and most good and sustainable microfinance institutions have features of two or more models in their activities.

Many of these models are in deed "formalized" versions of informal financial systems. Informal systems have historical precedents that predate modern banking systems. They are still in existence today used mostly by low-incoe households who do not have access to formal banks. GDRC has developed a continuum of informal credit suppliers that clearly illustrates the link between such informal systems and the models illustrated below.

The models were developed through extensive field work/observations and interviews carried out in India, Thailand, Philippines, Indonesia and Sri Lanka, and includes information from literature as well.

Associations Model

This is where the target community forms an 'association' through which various microfinance (and other) activities are initiated. Such activities may include savings. Associations or groups can be composed of youth, women; can form around political/religious/cultural issues; can create support structures for microenterprises and other work-based issues.

In some countries, an 'association' can be a legal body that has certain advantages such as collection of fees, insurance, tax breaks and other protective measures. Distinction is made between associations, community groups, peoples organizations, etc. on one hand (which are mass, community based) and NGOs, etc. which are essentially external organizations.

Closely related to the group model and similar models.

Bank Guarantees Model

As the name suggests, a bank guarantee is used to obtain a loan from a commercial bank. This guarantee may be arranged externally (through a donor/donation, government agency etc.) or internally (using member savings). Loans obtained may be given directly to an individual, or they may be given to a self-formed group.

Bank Guarantee is a form of capital guarantee scheme. Guaranteed funds may be used for various purposes, including loan recovery and insurance claims. Several international and UN organizations have been creating international guarantee funds that banks and NGOs can subscribe to, to onlend or start microcredit programmes.

Community Banking Model

Community Banking model essentially treats the whole community as one unit, and establishes semi-formal or formal institutions through which microfinance is dispensed. Such institutions are usually formed by extensive help from NGOs and other organizations, who also train the community members in various financial activities of the community bank.

These institutions may have savings components and other income-generating projects included in their structure. In many cases, community banks are also part of larger community development programmes which use finance as an inducement for action.

Closely related to the village banking model.

Cooperatives Model

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Some cooperatives include member-financing and savings activities in their mandate.

See the International Cooperative Alliance website for more details.

Credit Unions Model

A credit union is a unique member-driven, self-help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest.

The members are people of some common bond: working for the same employer; belonging to the same church, labor union, social fraternity, etc.; or living/working in the same community. A credit union's membership is open to all who belong to the group, regardless of race, religion, color or creed.

A credit union is a democratic, not-for-profit financial cooperative. Each is owned and governed by its members, with members having a vote in the election of directors and committee representatives.

Grameen Model

The Grameen model emerged from the poor-focussed grassroots institution, Grameen Bank, started by Prof. Mohammed Yunus in Bangladesh. It essentially adopts the following methodology:

A bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population.

Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank.

Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan.

Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense , collective responsibility of the group serves as collateral on the loan.

More information on Grameen Bank can be found in the Case Studies section.

Group Model

The Group Model's basic philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals.

The collective coming together of individual members is used for a number of purposes: educating and awareness building, collective bargaining power, peer pressure etc.

The Group model is closely related to, and has inspired, many other lending models. These include Grameen, community banking, village banking, self-help, solidarity, peer pressure etc.

One example of the Group Model is "Joint Liability". When a group takes out a loan, they are jointly liable to repay the loan when one of the group's members defaults on the repayments.

Several resources for the group model can be found in the Capacity Building for Microfinancesection.

Individual Model

This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment.

The individual model is, in many cases, a part of a larger 'credit plus' programme, where other socio-economic services such as skill development, education, and other outreach services are provided.

Intermediaries Model

Intermediary model of credit lending positions a 'go-between' organization between the lenders and borrowers. The intermediary plays a critical role of generating credit awareness and education among the borrowers (including, in some cases, starting savings programmes. These activities are geared towards raising the 'credit worthiness' of the borrowers to a level sufficient enough to make them attractive to the lenders.

The links developed by the intermediaries could cover funding, programme links, training and education, and research. Such activities can take place at various levels from international and national to regional, local and individual levels.

Intermediaries could be individual lenders, NGOs, microenterprise/microcredit programmes, and commercial banks (for government financed programmes). Lenders could be government agencies, commercial banks, international donors, etc.

Most models mentioned here invariably have some form of organizational or operational intermediary - dealing directly with microcredit, or non-financial services. Also called the 'partnership' model. Specifically see NGOs.

NGO Model

NGOs have emerged as a key player in the field of microcredit. They have played the role of intermediary in various dimensions. NGOs have been active in starting and participating in microcredit programmes. This includes creating awareness of the importance of microcredit within the community, as well as various national and international donor agencies.

They have developed resources and tools for communities and microcredit organizations to monitor progress and identify good practices. They have also created opportunities to learn about the principles and practice of microcredit. This includes publications, workshops and seminars, and training programmes.

See Internet Resources and Networking sections of the Virtual Library.

Peer Pressure Model

Peer pressure uses moral and other linkages between borrowers and project participants to ensure participation and repayment in microcredit programmes. Peers could be other members in a borrowers group (where, unless the initial borrowers in a group repay, the other members do not receive loans. Hence pressure is put on the initial members to repay); community leaders (usually identified, nurtured and trained by external NGOs); NGOs themselves and their field officers; banks etc.

The 'pressure' applied can be in the form of frequent visits to the defaulter, community meetings where they are identified and requested to comply etc.

The Grameen model extensively uses peer pressure to ensure repayment among its borrower groups.

ROSCA Model

Rotating Savings and Credit Associations or ROSCAs, are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle.

For example, a group of 12 persons may contribute Rs. 100 (US$33) per month for 12 months. The Rs. 1,200 collected each month is given to one member. Thus, a member will 'lend' money to other members through his regular monthly contributions.

After having received the lump sum amount when it is his turn (i.e. 'borrow' from the group), he then pays back the amount in regular/further monthly contributions. Deciding who receives the lump sum is done by consensus, by lottery, by bidding or other agreed methods.

See "A Typology of Informal Credit Suppliers"

Small Business Model

The prevailing vision of the 'informal sector' is one of survival, low productivity and very little value added. But this has been changing, as more and more importance is placed on small and medium enterprises (SMEs) - for generating employment, for increasing income and providing services which are lacking.

Policies have generally focussed on direct interventions in the form of supporting systems such as training, technical advice, management principles etc.; and indirect interventions in the form of an enabling policy and market environment.

A key component that is always incorporated as a sort of common denominator has been finance, specifically microcredit - in different forms and for different uses. Microcredit has been provided to SMEs directly, or as a part of a larger enterprise development programme, along with other inputs.

Village Banking Model

Village banks are community-based credit and savings associations. They typically consist of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities.

Initial loan capital for the village bank may come from an external source, but the members themselves run the bank: they choose their members, elect their own officers, establish their own by-laws, distribute loans to individuals, collect payments and savings. Their loans are backed, not by goods or property, but by moral collateral: the promise that the group stands behind each individual loan.

The Village Banking model is closely related to the Community Banking and Group models. This model is widely adopted and implemented by FINCA. See their Village Banking Homepage.