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Micro Finance Borrowers in Assam
A Study of RBI Policies for Micro Finance

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Abstract

Micro finance provided to those who have difficulty in accessing formal financial service. It is targeted at the low income people of our country. The first initiative to introduce micro-finance was the Self Employed Womens Association (SEWA) in Gujarat, which established SEWA bank in 1974. Micro finance comprises several financial tool such as saving, credit, insurance and cash transfer. Interest rates on micro finance are generally higher than that on traditional personal loans. In this paper I can try to explain the recent RBI policies for micro finance and is the borrowers are generally from the low income background.

Keyword : Micro finance, loan, low income, poor.

Introduction

Micro finance is a one type of financial service provided to those who have difficulty in accessing formed financial service. It is targeted at the low income and unemployed fraction of the population in developing countries such as India. Financial service through formal channels do not meet the demand of the rural poor, so micro finance can help small scale business flourish by providing greater financial services in India. The first initiative to introduce micro finance was the Self Employed Women's Association (SEWA) in Gujarat, which established SEWA bank in 1974. Since then this bank has been providing financial service to individuals who wish to grow their own business in rural areas. The concept of micro-finance focuses on women also by granting them loan, it act as a tool for the empowerment of poor women as women are becoming independent they are able to contribute directly to the well being of their families and are able to confront all the gender in equalities. Micro-finance was introduced in India in the 1980s as a solution to poverty and to empower women. "Banker to the poor" Yunus won the Noble peace prize in 2006 for his efforts to provide small loan on suitable terms and some financial tips to poor people, in a bid to encourage them to set up their own business. The concept has since taken off in a big way and is now on offer across several nations.

Assam is one of the key states for micro-finance in India's north east. There are around 34 Non Banking Financial Companies (NBFC) and Micro-Finance Institute (MFI) in Assam. A part from seven small finance banks and nine scheduled commercial banks, for many people micro-credit offers the only reliable source of money to start their business or when big expenses, education, medical, wedding emergencies etc come up. A number of development policies have been taken targeting poverty eradication but did not meet the expectation. In Assam there were 14 lakhs micro-financial borrowers. They borrow loan from the various NBFC and MFIs,in Assam micro-lending is a high risk business. The repayment ability to the borrowers is closely linked to the economic situation on the ground. When COVID-19 pandemic situation was occurred the unexpected jolt for many borrowers impacting on their business. All the business owner has been collapse due pandemic. They have no ability to recovery loan installment. Than Assam government will kick start the process to provide relief to around 11 lakhs micro-finance borrowers who are making regularly payment to banks.

Objectives of the study

1. To examine the sources of Micro-finance in Assam.
2. To examine the recent RBI policies for micro-finance.
3. To examine the borrowers are generally from low income backgrounds.

Methodology

This paper is mainly based on data from secondary sources like books, news paper, various research articles and websites also.

Sources of Micro-finance

Micro finance is the supply of basic financial services to poor and low income households and their micro-enterprises. Micro finance comprises several financial tool such as savings, credit leasing, insurance and cash transfer. These services are provided by a variety of institutions, which can be broughtly divided into banks, N.G.O., credit and savings co-operatives associations, non financial and informal sources.

Micro finance services are offered by the following sources:

a. Formed institutions such as co-operative and rural banks.
b. Semi informal institutions such as non government organization (NGO).
c. Informal sources such as shopkeepers and small scale lenders.

Institutional microfinance encompasses the services provided by both formal and semi informal institutions. While several MFIs are well run with greater historical records, other are operationally self sufficient.

Importance of Microfinance

Almost half of the population of our country does not have a basic saving account. However, this segment requires financial services so that their aspirations such as building of assets and protection against risk can be fulfilled. Micro-finance provides access to capital for individuals, who are financially underserved. If micro-finance institutions were not offering loan to this segment of the society, these group would have resorted to borrowing money from friends or family members. The probability of them opting for fast cash loans or pay day advances are also high. Micro finance helps these groups invest wisely in their business and hence is in alignment with the government vision of financial inclusion in the state.

Types of Micro Finance

Micro-finance includes the following products:

a. Microloans : Microfinance loans are significant as these are provided to borrowers with no collateral. The end result of microloans should be to have its recipients outgrow smaller loans and be ready for traditional bank loan.

b. Micro insurance : Micro insurance is a type of coverage provided to borrowers of micro loans. These insurance plans have lower premiums than traditional insurance policies.

c. Micro saving : Micro savings accounts allow entrepreneurs operate saving account with no minimum balance. These accounts help users include financial discipline and develop can interest in saving for the future.

Borrowers are generally from low income background

The beneficiaries of micro-finance are those who did not have access to these traditional financial resources. Interest rates on micro-loans are generally higher than that on traditional personal loans. Micro-finance has been lauded by many as it is a clear passage to end of the cycle of poverty, aid the marginalized sections, decrease unemployment and improve their earning power. However, as it was argued that micro-finance actually makes poverty worse. The fact that some borrowers of microfinance use these loans to pay off their existing debts or fund their basic necessities reinforce. These arguments microfinance help in the provision of resources that offer support to the lower sections of the society as they have emerged successful in setting up income generation enterprises. Micro finance opportunities provide people credit when it is loans to customers. Micro finance has already shown that enabling the poor to empower themselves economically can be a good business. Therefore I said that micro finance borrowers are generally from the low income background.

RBI Policies for Microfinance

Micro finance facilitates achievement of national policies that target poverty reduction, woman empowerment, assistance to vulnerable groups and improvement in the standards of living. In our country micro finance sector has witnessed phenomenal growth over past two decades in terms of increase in both number of institutional providing microfinance as also the quantum of credit made available to the microfinance customs. Microfinance activities gained prominence in the early 1990s and RBI recognized. It as a new paradigm with immense potential and was very supportive for it growth. Over the last decade, the landscape of the microfinance sector has changed significantly. One out of two (NBFC-MFIs) entities granted approval for standing a Universal Bank in 2014 was an NBFC-MFIs viz Bandhan Financial Service Limited, while eight out of then entities granted approval for starting SFBs in 2016 were NBFC-MFIs. An NBFC-MFI has been defined as a non-deposit taking NBFC with minimum net owned fund of Rs. 5 Crore and Rs. 2 Crore for MFIs registered in the North East Region and having minimum 85% of its own assets in the nature of qualifying assets. The loan amount limit of Rs. 1.25 lakh for a customer which is fixed by the RBI,loan amount does not exceed of Rs. 75,000 in the first cycle and Rs. 1.25 lakh in subsequent cycles. The tenure of the loan not to be less than 24 months for loan amount excess of Rs. 30,000 with prepayment without penalty. Loan is repayable on weekly, fortnightly, or monthly installment at the choice of the borrower. Processing charges shall not be more than 1 percent of gross loan amount. The NBFC- MFIs registered under Section 8 of the Companies Act 2013 not accepting public deposits and having assets size of less than Rs. 100 Crore.

Conclusion

The beneficiaries of micro-finance are those who did not have access to these tradition financial resources. Al most half of the population of our state does not have a basic saving account. The borrowers are generally from low income backgrounds. Micro-finance opportunities provide people credit when it is in needed the most. Bank does not usually offer small loan to customers. MFIs providing micro loans bridge this gap. When loans are provided by micro-finance institutions, the eligibility of a borrower is on scrutinized on the bases of strong financial guarantees like traditional loan. Main stream banks assess the salary and assets of a loan applicant before granting the loan Micro finance banks rely more on the "human" criteria instead.

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