A STUDY ON EFFECTIVENESS OF LOAN PERFORMANCE IN MICRO FINANCE INSTITUTIONS WITH REFERENCE TO SALEM TOWN

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Abstract:

Poverty is the main grounds to improve the economic status of developing countries. A microfinance institution is an organization that offers financial services to low income populations. Almost provide loans to their members, insurance, deposit and other services to its customers. Financial services could enable the poor to influence their initiative, accelerating the process of building incomes, assets and economic security. However, institutions rarely lend down-market to serve the needs of low-income families and women-headed households. They are very often deprived of access to credit for any purpose, the level of interest rate and other terms of finance. Microfinance is increasingly being considered as one of the most successful tools of reducing poverty. Microfinance has a major role in filling up the gap between the formal financial institutions and the rural poor.

Keywords: Micro Finance, Financial Service, Rural poor.

1. INTRODUCTION

Microfinance is typically availed for the section of society that is financially weak and politically responsive. microcredit as one of the many reasons for over-indebtedness.. It would directly imply that borrowers do not know financial management and are ready to ‘consume’ loans tactlessly because loans are readily available and further that microfinance lenders are oblivious to the real consequences of such random lending.Microcredit is an alternative source of finance to poor households. It is the households who use microcredit for additional consumption and do not use microcredit to substitute informal debt. Microcredit is cheaper, standardized and transparent whereas informal credit is often very costly, unreliable and riddled with coercive collection mechanisms. MFIs actively encourage clients to borrow for income generation activities including for micro-enterprises. This is further verified through loan exploitation checks. Many MFIs also pursue the complementary objective of livelihood promotion among their borrower base. Loan performance refers to the financial soundness of a financial institution on the performance of their disbursed loan to various sectors.

It also means how the loans are scheduled to act and how they are actually performing in terms of the plan payment compared to the actual payments. It is closely associated with timely and steady repayment of interest and principal of a loan. Default on borrowed funds could arise from unfavourable circumstances that may affect the ability of the borrower to repay IFMR Capital is a registered non-banking finance company (‘NBFC’) based in Chennai, Tamil Nadu, India. IFMR Capital had microfinance exposure across 23 states and 296 districts in India. This includes the state of Tamil Nadu. It tracks the loan-by-loan data on repayment of pools structured, arranged and invested in by it. IFMR Capital has so far conducted monitoring and field surveillance visits to MFI operations in 192 districts, 440 branches and 1181 centres across India and has deep on-the-ground insights into microfinance operations and risks in the country. So Loans to poor people by banks have many limitations including lack of security and high operating costs. As a result, microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality. Microfinance institutions ('MFIs') in India are facing many repayment problems. This study was aimed at assessing the effectiveness of credit management systems on loan performance of microfinance institutions in India

2. RELATED WORK

In this world various religions say god is omnipresent .But it is true we do know, that poverty, unemployment and low life style are omnipresent, even in developed countries. Poverty alleviation and entrepreneurship creation is vital and significant one in the world, especially in backward and developing countries like Asian and African countries. Today various peoples faced various levels of problem in day-to -day life, like nutrition related diseases, low life style; they are unable to start any small level business. Therefore financial help for the poor through government and NGO is essential. Women constitute around half of the total world population. So is in India also. Therefore, they are regarded as the better half of the society. In traditional societies, they were confined to the four walls of houses performing household activities. Now –a- day in modern societies, they have come out of the four walls to participate in all sorts of activities. The global evidences buttress that women have been performing exceedingly well in different spheres of activities like academics, politics, administration, social work and so on. In this process not only urban educated women but also rural women participate. Therefore women development and entrepreneurship are must for rural women. Entrepreneurship and other development purposes finance play a vital role especially micro-level finance. Micro level credit is a boost for rural women development process. The process of managing credit is significant in improving the current credit scoring practices by the lenders. Credit management ensures inclusion of primary predictive factors that cover the full spectrum of relevant qualification criteria and both determines and reveals how they combine to produce outcomes. Credit scoring, which relies on historical data, does not have this capability, nor does it possess a feedback mechanism to adjust factor weightings over time as experience accumulates. The process of managing credit determines which risk factors that pertain to the lending decision within the context of each borrower's situation and the loan product parameters, and then appropriately adjusts the factor weightings to produce the right outcome.

3. PROPOSED SYSTEM

The history of the modern microfinance institution can be traced back to Bangladesh in 1976 when Professor Muhammad Yunus launched a research project in his local community. He was talking to the rural poor surrounding the University of Chittagong, the college where he taught economics, and found that they did not lack the skills to participate in the business environment, but merely the capital. When he asked one of the people he was talking to how much she needed, the answer was absurdly low. Reaching into his pocket, he took out the amount of money that was needed. Handing it over with no collateral requirement, Professor Yunus made a verbal contract to be repaid over 52 weeks with interest that was much lower than what the local predatory lenders charged.

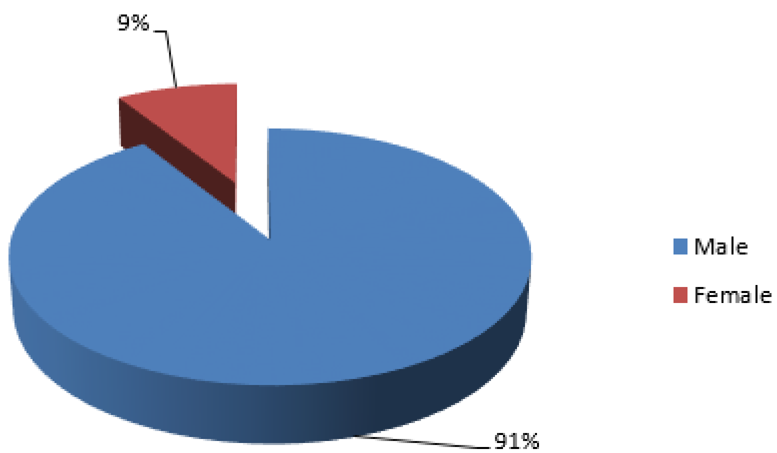

Fig.1.Respondenet

Microfinance institutions exist to alleviate poverty. They do so by making loans with relatively low interest rates to people who are not able to access more traditional forms of financing. Requiring no collateral, the organizations rely upon several different mechanisms to guarantee repayment. Lending to groups is the most common way a microfinance institution ensures that they will be repaid. They require that a person who is seeking a loan band together with several other people who are also seeking credit and make each member of the group guarantee the loans made to the other members. Through peer pressure and cooperation among the group members, there exists a rate of repayment that is higher than that of more traditional commercial banks.

4. ANALYSIS

In his study explains, traditionally have been playing a crucial role in the family as well as in the farm, shop, factory and in the society, but their contribution has not been duly acknowledged. The involvement and participation in the process of development is sine-qua-non for the uplift of to boost their status in the society. In the present age of globalization where each and every economy of the world is giving emphasis on empowerment which is not possible by creating employment opportunities for them but to motivate them to go for creating their own enterprise. Have undergone a radical transformation from merely a homemaker to a dynamic multifaceted personality contributing to the socio-economic growth worldwide. Therefore, a more from family management to enterprise management may be easier than a move from paid employment to self employment. Today, more and more are seeking economic opportunity and self determination through enterprise creation and are well prepared to grab the opportunities of the multi-polar world. But at the same time they have to face a number of challenges which are required to be solved by making them and their family aware and attracting financial and moral support in this regard. This study is based on the case study of entrepreneurs working in leading districts of Bihar in India. Microfinance is the provision of financial services to low-income people. It refers to a movement that envisions a world where low-income households have permanent access to high-quality and affordable financial services to finance income-producing activities, build assets, stabilize consumption, and protect against risks. Initially the term was closely associated with microcredit—very small loans to unsalaried borrowers with little or no collateral—but the term has since evolved to include a range of financial products, such as savings, insurance, payments, and remittances. Poor people need many kinds of financial products and services and there is a growing range of organizations working to reach them with savings, insurance, transfers, and credit services.

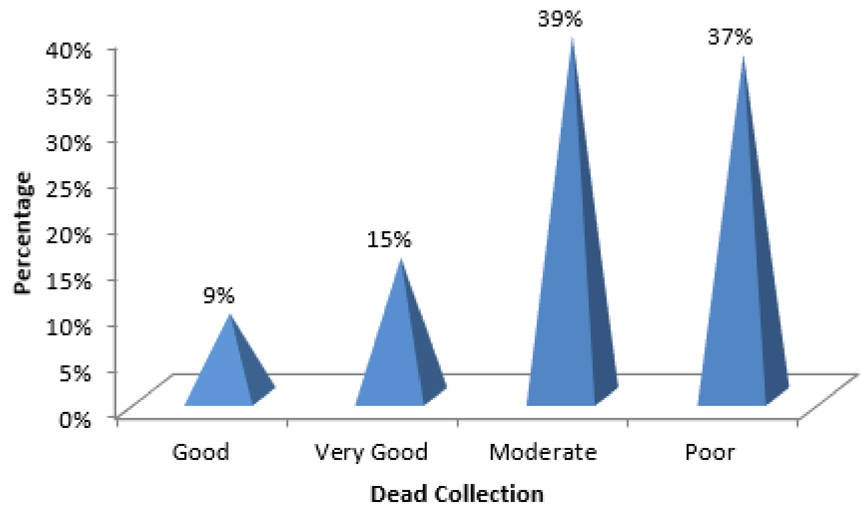

Fig.2.Collection

Within any society, financial services provide a means for people and businesses to obtain credit and manage available assets on a continuous basis. Access to financial services enables existing businesses to grow and provides the starting capital for starter businesses. Microfinance institutions provide these services within communities that have limited resources and few avenues for economic development. People within these communities can use microloans to develop small businesses based on their existing talents and skill sets. Examples of small businesses funded through micro financing institutions include food preparation, tapestries and manufacturing clothing. On average, loan repayment rates for micro finance institutions range around 97 to 98 percent.

CONCLUSION

According to the Developing World Markets news and reference site. This high repayment rate results from the approach methods used by microfinance institutions when working within communities. One approach uses a group method in which borrowers work within a group environment that fosters educational and supportive interactions among members. The group method also requires members to hold one another accountable for repaying loan obligations and also holds each group member accountable for unpaid loans. Microfinance institutions also work with another approach that uses self-help groups formed by government and non-government organizations within each community. Self-help groups also function as a supportive environment and can also open bank accounts under the group's name.

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