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ROLE OF MICROFINANCE AND MICROFINANCE INSTITUTIONS MODELS IN IMPROVING QUALITY OF LIFE - A CRITICAL REVIEW

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Abstract: With globalization of microfinance models, it accrues a lot of financial services to the needy like saving programs, agricultural housing, credit for microenterprises, education and consumer purchases, insurance, training, and other financial based transactions. Moreover, all Micro Financial Institutions (MFI) worldwide don't function in a uniform manner, rather they differs when it comes to ownership, structure of organization, rendering of financial services, lending criteria and sources related to funding. In this respect, there are some institutions where clients themselves own but functions as per the prescribed rules by community members. Again, there are some institutions which come under the purview of Governments, NGOs or banking entities. In spite of variation in ownership and structure, poor has the access to avail loans and to repay the same. The present paper critically reviews the role of microfinance and microfinance institution models in enhancing quality of life. This review restricted on how Microfinance and Microfinance Institution models addressed the development rather than its impact from MFI.

Keywords: Microfinance and Microfinance Institutions Models, Quality of Life

I. Introduction

Gross National Happiness concept has developed over a period of time from emphasising insufficiencies of conventional theories of economics for measuring development and ascertaining the development policy's direction and putting forward 'four pillar' objective approach (*Balanced Equitable Development, Environment Conservation, Preservation, Promotion of Culture and Heritage and Good Governance*) consistent with millennium development goal in an attempt to accomplish functions of the same with introduction of indicators of measurement. Indicators were populations' health, living standard, education, vitality and diversity of ecosystem, good governance, time use and balance, cultural vitality and diversity, vitality of the community and emotional well being (Hulme, 2000[13]). Microfinance's universal appeal originated from its potential to reach the poor without collateral and begetting almost full recovery rates (Camp and Spiedel, 1987[5]). Recognising microfinance's significance, major actions have already been taken by World Bank in developing this sector (Awaworyi, S.K., 2014[2])

II. Microfinance and Microfinance Institution Models

A. Grameen Bank Model of Bangladesh

Model of Grameen Bank (GB) is designed through participation of five volunteers to form a small group with an aim to support one another at the time of furnishing of collateral as per the requirement of traditional banks (Mahanta et al., 2012[22]). In this context, women had also the leverage of accessing financial services in initial stage of this model. However, interesting fact here was that women proved themselves as trustworthy entrepreneurs. In due course of time, conventional banking practice of GB has undergone change where there is no need of furnishing the collateral formalities; rather it is developed with the theme of accountability, mutual trust, participation and creativity (Imai and Azam, 2012[14]).

Credit for finding Grameen Bank goes to Professor Yunus, who has given some insights over the availability of credit by the poor. As per his views, credit is the potent weapon for poor to deal with inequalities in society and to join in the mainstream. However, curtailment in this respect was collateral to which Grammen Bank dealt successfully (Khandker, 2005[18]). Nonetheless, Prof. Yunus had different views as far as the conventional banking system was concerned. According to him, there were many liabilities like anti-poor, anti-women, and anti-illiterate associated with conventional banking leading to no change in the social status between the rich and poor (Yunus, 2006[39]). For this reason, microcredit acts as panacea to deal with various issues while providing impetus to set up micro enterprises.

B. The MC2 Model

The MC2 model basically stands for rural development micro-banking. The concept of this was developed by a community with responsibility of management to maintain their local tradition. Brain child behind this concept was Dr. Paul K. Fokam. The reason was that he was very much inspired by the Einstein's famous formula:

Victory over Poverty (VP) is possible if the Means (M) and the Competences (C) of the Community (C) are combined. Thus, accordingly, formula of $VP = M \times C \times C = MC^2$

MC2 model has its fundamental approach in micro banking executed by a community. Those who are in need of this model should depend on their own contribution to generate wealth for better quality of live on progressive basis. There are two versions which come under the purview of this model: one is rural (MC2) and other one is urban (MUFFA). Women are the only beneficiary as far as second version of the model is concerned. Study report in this regard reflects that women from the urban conglomerates are the most vulnerable to poverty (Fotabong, 2011[9]). Concept of MUFFA, is, therefore comes handy to avail financial services on the part of women in order to kick start any business venture (Fotabong, 2011[9]).

One of the major drawbacks of MC2 model is that it requires a longer period to become financially self reliant as well as to have enough resources. Thus, to fulfill social dimension objective, it might require another 10-15 years. As a result, various activities of this model don't blossom to reality as needed by its members.

C. Rotating Savings and Credit Associations Models

This model is very popular where people from a community were responsible to contribute certain amount on regular basis to raise funds to be utilized in cycle by any needy member; is generic way of savings and credit (Harper 2002). Group from the community comprises of friends, neighbours, closely related community etc. (Manimekalai and Rajeshwari, 2001[23]). This type of group is also known as Merry-go-rounds or Self-Help Groups. As per the study by Rajasekhar, 2001 the banks exist in villages are community based to raise funds and to avail credit through the help of NGOs where they assist in creating self help groups for the necessary financial services.

D. Grameen Solidarity Group Model

Pressure from peers within the group also leads to creation of Grameen Solidarity Group Model. In this model, four to seven members of a group could seek loan assistance and is ensured by themselves. If the group wants to seek further loan assistance, then it would be decided as per their repayment of the first loan. As per generic guidelines, payments are disbursed on weekly basis. Financial services by solidarity groups are very much fruitful to deal with the defaulters of loan repayment as per the microfinance model (Puhazhendhi and Satyasai, 2001[29]).

E. Village Banks Models

Banks which operate out in rural areas are managed by a community where NGOs assist to form self help groups for the necessary financial services involving credit and savings in order to assist its members (Teng et al., 2011[37]). Operational of this bank started in mid-1980s and continues to deliver the financial services till date. Those in the low income categories have the opportunity to raise their living standard through various self-employment activities with a group comprising 25 to 50 members. Members of the group are responsible for overall functions of the bank including selection of office bearers, formulating by-laws, aspect of loan sanction and repayment of the same. Here, approval of loan is on the basis of moral collateral; it is a kind of undertaking where needy get support of rest of the members. There is a MFI in this regard makes sure the village bank gets capital loan which in turn is utilized by members of a group as per the loan amount requirement. Since collective guarantee is the procedure to avail the loan; it requires all members' written consensus on agreement paper. Again, it is expected from the members to oblige to the standard procedure of saving twenty percent of the availed loan amount in a cycle (Kaboski and Townsend, 2012[15]). The amount deposited by the members that goes into savings is utilized to sanction loans and for initiating various activities which will fetch them income. As a result, members have to be under the purview of village bank. However, members are entitled to get certain amount of profit through the re-lending activities of village banks (Banerjee, 2013[4]).

F. Individual Lending Model

Issue involving in this model is that an individual could seek loan even without any membership formality which usually happens in other lending models. In this model, borrower can avail the micro-loan directly as per the practice prevalent. However, banking institutions need to remain in touch with individual client on frequent basis to provide customized financial products (Ayuub, 2013[3]). The procedure involving lending is most suitable and lucrative to initiate business in urban areas. There are some funding organizations like Bank Rakyat of Indonesia, Senegal of Egypt, Association for the Development of Micro-Enterprises (ADEMI) in Dominican Republic and Self-Employment Women's Association in India who follow this model to render financial products (Hiatt and Woodworth, 2006[12]).

G. Credit Unions and Co-operatives

As far as credit unions are concerned, it works on the governing principle of its own without any profit motive. In the co-operative society, they are the proprietors and clients as well and in some circumstances originated by the people having identical region or professional with common interest (Kiran and Samarpreet, 2010[19]). The usual notion is that co-operatives provide its members the details of banking and financial services. The major decisions are taken by the members themselves through electoral measures prescribed in order that the co-operative gets some personnel to supervise and to look after administrative works. Only members are eligible to avail the loans.

H. Microfinance Models - Indian Context

In Indian context, two prominent players are Microfinance Institutes (MFIs) and Self-Help Groups Bank Linkage Programme (SBLP) having root in SGH Bank Linkage Model, SKS and Non Banking Finance Company and Microfinance (Patnaik, 2012[28]). There is a need to solidify the bond between banks and poor through the assistance of NGOs for which the role of the SBLP Reserve Bank of India and National Bank for Agriculture and Rural Development is highly significant. In India, SBLP has managed to reach the maximum number of clients, successfully (Sriram, 2004[36]). Another pivotal role played in this regard is the microfinance institutions. In due course of time, the MFI required involvement of more number of clients, where it was behind the approach of the SBLP. However, over the last years, it has gained momentum and appears as if it will compete well with the SBLP.

All most all the countries like China, India, Malaysia, Philippines, Sri Lanka, Thailand and Vietnam have adopted the Grameen Banks lending model. The concept of the Self-Help Group model prevalent in India was developed by nongovernmental organizations and most of the MFIs and banks follow suit its principles. In Indian scenario, those MFIs interested in earning revenue profitable could follow the models of NBFCs. This is the reason, profit motive MFIs are following the NBFC route. Capital market provides the necessary capital to these institutions with the expectation that lending to the poor is a trustable and profitable venture without the relying on low cost funds for lending. Another opinion in this regard is that there is a need for huge amount of money where the financial markets are the major players to raise the necessary resources. This reflects about the resources need to be accumulated at the rates of interest prevailing in the market. Debts and mezzanine assets are well utilized by these institutions. These institutions for the financing the micro projects depend on the capital markets investment and borrowings from commercial banks as well (Rao, 2008[31]). These funds in turn are made available to the poor for their various business activities further downgrades their living condition

I. Islamic Microfinance Models

Findings of research observed the fact that, those who are into banking services, at least at the foundation level, have the issue of credit crunch (Dusuki, W. A., 2008[8]). Muslims from the Middle East are having this problem; this is the reason, they are in search of such institutions having the feature of interest-free borrowing (Smolo and Ismail, 2010). Majority of the Muslim population is reluctant to accept interest-based financing; the prime reason is, it further aggravates their poor economic condition (Karim et al., 2008[16]). As per research study done by Islamic Development Bank, it is revealed that maximum number of Muslims resides in the six countries in India, Indonesia, Pakistan, Bangladesh, Egypt and Nigeria. These people estimated to be more than half a billion (628 million) and for their livelihood is something shocking, they are maintaining their daily requirements with less than \$2 (Lawai, 1994[21]). Research study conducted off late aids some interesting fact that most of the Muslims have no access to banking services and its products; if it is estimated in terms of exclusion rate; it stands at 80% in India. Survey report in this regard reveals that 40% of Muslims have no interest to avail the loans on religious grounds. Thus, it provides impetus to interest-free microfinance institute to explore to have the giant market. There is no doubt that Islamic Finance is progressing at higher pace, but the number of Muslims in this regard are very negligible. Hence, 'Islamic Finance' is the right initiative to address this issue as their population is near about half of the Muslims in the world. Poorest of the poor don't come under the purview of microfinance institution as they require basic needs like food and health security. Hence, they are counted as borderlines of poor as per the poverty line of CGAP. There are some people who have all the means of quality of life with the entrepreneurial knacks, but no access to finance (Sofi, 2012[35]). Due to flexible features of microfinance, it could be moulded as per the need of the local people and financial circumstances in any environment (Khan et al., 2012[17]). Therefore, those countries having various bottlenecks also infuse the mechanism of microfinance to get the due leverage even in the countries where the practice of Islamic finance is prevalent.

J. Value-Based Hybrid Model of Islamic microfinance

Sofi (2012) had proposed a theory on 'A Potential Value-Based Hybrid Model of Islamic microfinance for financing Microenterprises'. There was an attempt to develop a Shari'ah-complaint model to execute the functions of Islamic microfinance. This microfinance comprises of three Shari'ah-based modes namely; Ijarah wa Iqtina, Mudarabah partnership, and Bai'al-Istisna. Thus, it could assist the poor for their endeavor towards various micro entrepreneurial activities, as most of the times they don't get the adequate support. As a result, the poor no longer depend on the middlemen who charge exorbitant interest rate for rendering loans, which is actually a way of exploiting. Moreover, this Islamic microfinance makes utmost effort to bring a qualitative change to various micro financial activities and assists for long-term growth, and rendering due marketing and technical inputs as per the requirement (Remenyi and Quinones, 2000[32]).

K. Joint Liability Group (JLG Model)

As far as this model is concerned, the agents make earnest effort in persuading women to form group with 4-5 members with the responsibility of giving the nod of approval while seeking loan by a member. But the way bonding or relationships exist in SHG was lacking in this model. The levy of interest rate is between 12-18 percent in JLG by MFIs; whereas, the charge of SHG operated through PSU banks stood at 18-24 percent. The interest rate charged by MFIs remains under shroud as there are some hidden charges along with the processing

fees and penalties which is more than 27 percent. The main concern of this model is to ensure MFIs make profit. Since the bonding among the members is not firm, the rate of repayment remains at low. The actual production doesn't exceed the credit generation. It has been claimed reportedly by the MFIs that their lending activities is towards the purpose of income generation; however, in actual the purpose differs. Hence, it clearly reflects that the purpose of lending doesn't meet the reality and indirectly encourages borrowing to meet some other requirements. As a result, the borrowers ultimately suffer and pay the price which is known as microfinance crisis (Ahmed *et al.*, 2011[1]).

L. Self Employed Group (SEG) Model

The main theme of this model is sharing of profit and loss. The emphasis of this model is on credit generation. Poverty mitigation is possible, provided the unemployment issues get reduced for which the need is to have distribution of production in decent (Durrani *et al.*, 2011[7]). MFIs are reaping the dividends due to the policy of charging higher interest rate which leads it goes against the poor and fall prey to debt trap (Vetrivel and Kumarmangalam, 2010[38]). This model functions in a way the cooperative societies do. Be it group formation or any plausible business interest, MFIs render due insights for best of the result. Business opportunities could be categorized as farming and non-farming and put into practice both in rural and urban conglomerates in India (Marban, 2010[24]).

Feasibility of the Model

Since MFIs and SEG group members bear the onus of risk factors and high return also accrues, this model is very much reliable. The model SHG and JLG are dipolar, as one model is concerned about attaining the social objective while putting the self sustainability of MFIs at stake. On the contrary, another model in this regard primarily aims at making profits at the cost of not paying attention to social concern. The aim of this model is to have growth on sustainable basis and functions with its own set of prescribed rules without having the credit burden. Model makes sure to deal with the issues of all groups within the village. Moreover, basic amenities of the village were also paid high attention which further boosted the attributes of trust and loyalty among the villagers.

III. Basic Microfinance Centre

SEGs get due assistance through these units with the mechanism of control in place. The professionals who are associated with development programmes get the compensation through fixed salary and incentives in context to their performance. Moreover, the SEGs get the requisite training and consultancy insights through these centers.

Musharaka Programme

The aspect of entrepreneurship is promoted by MFIs promote on profit and loss sharing basis as per the guidelines of the programme. The motive behind is to leverage the advantages of savings to the villagers. There are certain Musharaka business units like poultry; dairy farm, etc. get the contribution from MFI and SEG members which in turn induce profit to them through sharing. Moreover, SEG members also receive the compensation due to their operational contribution; MFIs too receive the same for their contribution in terms of consultancy and operational assistance rendered. National Small Industry Corporation (NSIC), a government organization is also taken into account for its contribution to the MFIs if required; moreover, it also assists in promoting small scale industries.

Mudaraba Programme

As per rules laid down in this programme, both the MFI and group members invest. The former ensures 100 percent investment and the later through the application of skills and labour. The potential of this programme is that the villagers get maximum employment opportunities. Those having without any skills get the training through Basic Microfinance Centres (BMC) with an aim to utilize the funds for the necessary economic activities. When it comes to repayment, the installment option is there involving weekly and monthly basis to which the SEG group members comply. Moreover, district polytechnic colleges might also impart training and skills as per the requirement. This programme is responsible for creating skilled work forces like dairy farming, food processing, poultry farming, independent services like auto mechanic, barber, tailor etc. which comes under the purview of SMEs.

Kafala Programme

There are two prominent things of MFIs which get high attention in this programme: consumption needs and social security of villagers. In addition to these, other focused things are basic amenities, food and health security, hygienic conditions, education, electrification, etc. All these things ensure the attributes of the loyalty, trust and commitment among the villagers. MFIs work with an aim to attain certain objectives like sustainable development which is ensured through this programme. However, funds are required to achieve the objective this programme, where MFIs and group members ensure mandatory 2.5 percent investments along with voluntary contribution.

Ijara Programme (Leasing Finance)

Be it farming activities or non farming, both require requisite equipments and machines. This programme ensures these things to the ready. Lease or selling on credit are the two options to avail various machines and equipments like tractors, harvester, thresher, grinding machines etc. at reasonable price is ensured through this programme to the villagers.

IV. Solidarity

Repayment is one aspect where it requires motivating the members to be in strong bonding with others and to encounter the aspect of liability as well. Consider the case of village banks where the focus is on income generating activities for the loans financed. When an individual is granted loan through groups, it sounds unconventional. Reason is that banks don't believe in a policy where members of the group will meet the collateral requirements. Mutual trust is the base that urges the group members to assist the borrower. To avail the loan, there is no such secured thing to recover the amount in the case of a defaulter. Rather the group has the responsibility to repay loans. This basis of microcredit is replicated as it exists in the Grameen Bank of Bangladesh (Lathif, 2001[20]).

Group formation is the theme prevalent in solidarity group lending. The onus of repayment is on the group where all members make it sure to standby for an individual's loan. Thus, a conventional loan requirement has the perfect alternative as briefed above. It needs to be seen how it assists the lenders' in case of joint liability lending. It has the authority for transferring default risks from the institution to the borrower, at reduced charges involving in order to render small loans in huge numbers (Panda, 2009[26]). Best part of this methodology is that women clients get the opportunity to participate in various financial activities to create solidarity through paying emphasis on shared visions and goals in order to have collective strengths. To have the requisite change in social perspective on continuous basis, this methodology could be used as an effective tool due to the fact of critiques of cultural ideologies dominant in the society. Women clients come to aware of the advantages and how it empowers them in society (Mohindra *et al.*, 2008[25]).

V. Liquidity

In context to need of more savings on the part of the rural poor, aspect of liquidity and low transaction attains high attention as compared to alluring interest rates. Reliable options are in need by the financial institutions in order to avail liquid funds immediately as per the requirement including to have secure investment with more liquid funds at minimal returns. Mandatory savings from the clients is collected by MFIs on weekly or monthly basis, before making further loan disbursement. Once loan is disbursed, client gets the net amount minus the payment for first installment. This reflects, lender has already taken the first installment immediately after loan transaction. Clients have the opportunity to withdraw, once loan term ends as per the time period prescribed otherwise their termination from membership.

The past decades have witnessed so many policy initiatives. Still there is no favorable result as far as the growth of small-scale industry in Bangladesh is concerned (Parvin, 2012[27]). Liquidity problem is the reason for this dismal growth. There are so many factors which have been taken into account apart from liquidity to assess the dismal performance of large scale enterprise having origin from the micro-enterprise sectors. The factors responsible for this sordid growth of enterprises are: poor infrastructure, lack of effective entrepreneurial and management skills and minimal access to machinery and materials. The hindrances for the expansion of the micro-enterprise sector are lack of access to have enough credit and financial services of the financial institutions as well. For this reason it becomes incumbent on the part Medium and Small-scale Entrepreneurs to depend on family and informal moneylenders. The radical change in microfinance movement happened in the 1990s with the inception of group-lending methodology. In recent times, this approach has gained significance to deal with the issues involving supply-led lending methodology in context with high transactions costs, low repayment rates, risk, poor targeting, and sustainability. Many considered the '*new world of microfinance*' as savior due to its potential in rendering credit assistance to the poor on a large scale through various financial services. Gaps are evident in credit market in spite of microfinance institutions succeeding in their efforts in context to supply led policies and financial liberalizations. Another drawback in this respect is the difficulty in gaining enough access to credit facilities as felt by some enterprise and entrepreneurs (Rutherford, 1998[33]).

Thus, field of microfinance has the reason to probe into the nature of liquidity which is encountered by the entrepreneurs (Cheston and Khun, 2002). There are so many suggestions in this respect to address the liquidity problems encountered by the MSE. Those are: risk aversion, issue of repaying the loan leading to loss of possessions, a hesitant to guarantee other people's loan, inability and reluctance on the part of members to attend meetings on weekly basis and rejection of '*poorest of the poor*' by wealthier group members (Harper, 2002[11]; Hamdani and Naeem, 2012[10]).

VI. Conclusion

The present study aimed to critically review the role of Micro Finance and its impact over the quality of life which is measured in term of income, expenditure, patterns, saving, health, empowerment, entrepreneurship and literacy. In general, these micro finance serves are the financial service that supports lower-income group of business sector or the entrepreneurs with lower income business activities. It remains a matter of debate that in what context the study defines the above mentioned theories. First thing in this respect is to assess how the living standards and savings of poor people got shaped by the concepts of microfinance. Loans are being provided to the poor by the MFIs with an aim to raise the income and mobilize their savings as well. Poor people could live a secure life through mobilizing savings. This leads to income and savings of those in the poor

community who has garnered more attention to ascertain the cause. In addition to these, factors responsible for contributing towards human development like education, medical amenities and overall empowerment become the theme of fact-finding probe as these variables are linked to the basic program and methodology of microfinance. Poor have participated in various microfinance programmes. Therefore, effort was made to assess the standard of living to poor people in the line of any improvement in this situation or the status quo. Base of microfinance is attributed to the fact of requisite solidarity. Theory provides insights about the role of solidarity in getting the synergy of microfinance. It is evident from previous studies that, microfinance counts solidarity is a powerful tool to minimize the risk and to have the secure capital. The emerging entrepreneurs having the aim to establish medium scale business encounter with the major problem of crunch in liquidity. The exact nature of the liquidity problem needs to be investigated through observations involving the range of initial capital sought as loan from MFIs by the people.

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