



Micro finance in India: A revolutionary movement

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Abstract

Microfinance has been an important tool in poverty alleviation, empowerment of women and in bringing about financial inclusion. India has the highest number of households, about 145 million, which are excluded from banking system. Also, out of 6 lakh villages in India, only approximately 50000 have access to finance. Hence there exists a great opportunity for the microfinance sector to provide credit to the low-income population, thereby, reducing poverty and thus in the development of country as a whole. Technological innovations, product requirements, and on-going efforts to strengthen the capacity of Indian MFIs are needed to reduce costs, increase outreach and boost overall profitability. Although the microfinance sector has reported an impressive growth, sufficient regulatory and governance would help achieve the goal of poverty alleviation and financial inclusion and this could be achieved with combined cooperation of banks, donors, Government, NGO and other players in the country. Thus, continuous efforts are required to diversify the sources of funding available for the MFIs in order to attract foreign Investment for well-established MFIs in order to serve the rural low-income population, alleviate poverty and also, make them profitable.

Microfinance has the fool proof potential to be a transformative tool for socio-economic development in the country. However, to actualise the maximum limit of its potential, it is essential to address the challenges and obstacles faced by microfinance providers and borrowers. By implementing policy interventions, microfinance can become a more effective and inclusive mechanism for poverty alleviation and financial inclusion at the national level as well as the state level.

Keywords: Empowerment of women, financial inclusion, micro finance, poverty alleviation, self help groups

Introduction

The concept of micro-finance implies formal and flexible approach to the credit needs of the poor. Micro-finance is the provision of thrift, credit and other financial services and products in small amounts to the poor. It helps to generate income in their hands and improve their living standards. Micro-finance has grown at a rapid pace in the past five decades across the world, benefiting millions of poor. The backdrop for micro-finance in India is the international effort in progress since 1980s.

Microfinance refers to a movement that envisions a world in which low-income households have permanent access to a range of high-quality financial services, such as

- Financing their income-producing activities,
- Build assets,
- Stabilize consumption,
- Protecting against risks,
- Services are not limited to credit, but include savings, insurance, and money transfers etc.

The Grameen Bank Model in Bangladesh

In 1976, the Grameen Bank (GB) was launched in a village in Bangladesh to assist poor families by providing credit to help them overcome poverty. Similar efforts were made in Indonesia and Latin America. GB was transformed into a bank in 1983.

GB was owned by poor borrowers who were mostly women. It was doorstep banking. The loans did not require any collateral and the system was based on mutual trust, accountability, participation and creativity. GB offers credit for income-generating activities as opposed to consumption. The borrower has to be part of a group of five which ensures

that the borrower behaves in a responsible way but is not responsible for repayment. Loans can be received in a continuous sequence. Since 2000. GB Increased emphasis on deposit mobilization.

GB shifted to individual lending after 25 years of operation and its products can be used for everyday money management as well as micro-enterprises.

RBI, NABARD and SIDBI

Recognizing the potential of micro-finance to reduce poverty, Reserve Bank of India, NABARD and Small Industries Development Bank of India (SIDBI) have promoted the micro-finance movement in India. The RBI advised banks in February 2000 to mainstream micro-credit and to extend the outreach of micro-credit providers. Micro-credit extended either directly or through any intermediary is reckoned as part of bank's priority sector lending. Banks are free to prescribe their own lending norms.

Micro-Finance Development Fund

A Micro-finance Development Fund in NABARD with a start-up capital of Rs 100 crore from RBI, NABARD, banks and others was announced through Union Budget 2000-01 to provide start-up funds to micro-finance institutions and infrastructure support for training and systems management and data support.

The Union Budget for 2005-06 announced that the Government of India intends to promote micro-finance institutions (MFIs) in a big way. For this purpose, the Micro-finance Development Fund (MFDF) was redesigned as Micro-finance Development and Equity Fund (MFDEF) and the corpus of the fund was increased from Rs 100 crore to Rs 200 crore. MFDEF is expected to play a vital role in

capitalizing the MFIs and thereby improving their access to commercial loans.

The Central government is considering the need to identify and classify the MFIs and rate such institutions to empower them to intermediate between the lending banks and the clients. To facilitate the process of rating of MFIs, NABARD has decided to extend financial assistance to commercial banks and RRBs by way of grant to enable them to avail the services of credit rating agencies for rating of MFIs.

Clients for Micro Finance

Micro Finance clients include

- Poor and low-income people that do not have access to other formal financial institutions;
- Self-employed, households-based entrepreneurs;
- Clients fall near the poverty line, both above and below;
- Most client below the poverty line are in the upper half of the poor;
- Women often comprise the majority of clients;
- Pensioners and salaried workers etc.

Micro Finance break the cycle into

- Low investment into higher investments,
- Low savings into higher savings, and
- Low income into higher income.

Principles of Micro Finance

Micro finance work on under-mentioned principles:

1. Poor people need not get loans but also savings, insurance and money transfer services.
2. It should be useful to poor households, helping them raise income, build up assets and cushion themselves against external shocks.
3. It integrates the financial needs of poor people into a country's mainstream financial system.
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Self Help Groups: For the people, by the people and of the people

Self Help Group (SHG) is a small group of rural poor, who have voluntarily come forward to form a group for improvement of the social and economic status of the members. It can be formal (registered) or informal. The concept underlines the principle of Thrift, Credit and Self-Help. Members of SHG agree to save regularly and contribute to a common fund. The members agree to use this common fund and such other funds (like grants and loans from banks), which they may receive as a group, to give small loans to needy members as per the decision of the group.

The rural poor are incapacitated due to various reasons. Most of them are socially backward, illiterate, with low motivation and poor economic base. Individually, a poor is not only weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today's development process. However, in a group, they are empowered to overcome many of these weaknesses. Hence, there are needs for SHGs, which in specific terms can

- Mobilize resources,
- Uplift the living conditions of the poor,
- Utilization of local resources,

- Mobilize individual skills,
- Assist the members financially,
- Help in recovery of loans,
- Be an effective delivery channel for rural credit.

The ideal size of an SHG is 10 to 20 members. Its advantage is that in a bigger group, members cannot actively participate. Also, legally it is required that an informal group should not be of more than 20 people. The group need not be registered. From one family, only one person can become a member of a SHG. More families can join SHGs this way. The group normally consists of either only men or only women. Women's groups are generally found to perform better.

To develop a group into a well-managed Self, Help Group, the members should evolve rules and regulations, which are to be adopted, after discussions with all the members for compliance in full.

All SHG members should regularly save a small amount. Savings first-Credit later should be taken as motto of every SHG member. SHG members take a step towards self-dependence when they start small savings. They learn financial discipline. Internal lending should also be promoted. SHG should use the savings amount for giving loans to members. The purpose, amounts, rate of interest, schedule of repayment etc. are to be decided by the group itself.

It should plan to get financial support from Government, Bank and NGO for its sustainability. It can take up some development programmes in the locality and involve in implementation and monitoring of the programmes.

We may opine that a SHG is a small, economically homogeneous and affinity group of the rural poor, voluntarily coming together for the following reasons:

1. To save small amounts of money regularly.
2. To mutually agree to contribute to a common fund.
3. To meet their emergency needs.
4. To have collective decision-making.
5. To solve conflicts through collective leadership and mutual discussion.
6. To provide collateral free loans with terms decided by the group at market driven rates.

The mission of 'empowerment of women' ultimately has to improve the quality of life, introducing innovative, dynamic and sustainable development models as an approach of development, including child of family, health, women and education and micro-financing areas. Some areas are useful to women in farm activities (Mix-farming vegetables with cash crops maize other grains) off-farm activities like handicraft, fisheries, culture, effective utilization of local natural resources (herbal, food processing activities, traditional cookies) etc. Government of India has advocated group-based programmes for promoting SHGs.

Micro Credit and Financing Policy

Micro-credit and self-help group financing policy and programs are characterized both by the mechanisms they use to reduce risk and by the population group they target. Accordingly,

- Micro-credit loans tend to be very small.
- Short term working capital is being provided.
- Repayment schedules are characterized by small, frequent repayment schedules ranging from daily repayments to weekly or monthly to manage his

finances better without being over burdened by debt repayment.

- The self-help group is the fundamental unit of most micro-credit policies, whose members are jointly liable for each individual's loan, to form 'social collateral' as a substitute for material asset.
- Micro-credit loans charge interest rates that are higher than the commercial rate.

The main objective of this policy initiative is to bring financial services to the poorest of the poor and to the socially excluded population in developing world. Micro-credit policy is used to develop lending mechanisms that do not depend on the collateral, credit history, and loan guarantees that the formal banking sector requires.

Ideally, the time frame of such micro-credit policies should be long term, in order to have a measurable and sustained impact on the living conditions of the beneficiaries. The micro-credit schemes normally work in a stepwise manner, wherein the consumer takes a small loan and repays it in a timeframe of few days/weeks. This is a confidence building process, which improves the credit worthiness of the consumer. The greater benefit arises when renewable energy devices are purchased to improve living standards or reduce running expenses and thereby improve a consumer's saving/paying capacity. The micro-credit facility should be provided for a period often to fifteen years to ensure sustainable development in that section of society.

Summing up

Eradication of poverty has been one of the guiding principles of the planning process in our country. Improvements in the living standards of people and the provision of a decent standard of living have been prominent objectives of the successive five- year plans. Identification of the poor and initiation of specific programmes that address differential needs of people steeped in poverty have been the distinguishing features of all the five-year plans. The multi-dimensional nature of poverty in India has been increasingly recognized over time and the issue of poverty has also become a global concern especially since the last decade of the 20th century.

SHGs have made a positive impact on the income and employment situation. However, loans were not large enough to take up income-generating activities. As a result, loans were used for consumption purposes or subsistence Income- generating activities. SHGs have a weak record of account keeping. However, approximate figures of total savings and total loans outstanding to banks could be provided for information about profits is not known. SHGs do not have a clear policy on how to deal with defaults or dropouts which form 10 per cent of membership. Awareness related to micro-finance be broadened and efforts should be taken to get rid of technology-related hurdles, such as high costs involved in small loan transactions for micro finance providers. Full swing of micro finance is yet to achieve!

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