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CHARACTERISTICS OF MICRO-FINANCE IN INDIA

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ABSTRACT

Micro-finance is one of the most promising concept in developing countries like India. It is an instrument for attaining the UN Millennium Development Goal of poverty alleviation. In India, micro-finance is used as a tool to lift the poor people out of poverty since people in developing countries lack access to financial resources. All these led to the search of an alternative system of policies, procedures, system and other services that can fulfill the basic requirements of the poor. In this context, micro-finance evolved as the most suitable and practical alternative for the unbanked population of the country.

Key words : *Micro-finance and financial resources*

INTRODUCTION

India is a developing country and the main hindrance of it being a developed country is the immense poverty prevailing in the country. This is the main cause of concern in improving the economic status of developing countries. The basic reason behind it is the gap that exists between the demand and supply of credit needs to the poor. While the country is experiencing considerable growth in its Gross Domestic Product (GDP), still there is a need for a balanced growth between the rich and the poor. The poor do not have access to credit and hence they are not able to generate any livelihood activities. All this necessitates the setting up of such a structure which could also serve the poor and the needy who do not have access to banks and who are totally dependent on to the money lenders. Moneylenders though emerged as one of the means for looking after the credit needs of the poor and the weaker sections of the society but they all started exploiting the poor by charging high interest rates.

The Government and Reserve Bank of India emphasized on providing banking facilities to the masses but it overlooked the marginalized sections of the society. Thus the formal banking system could not cover the poor despite of its accessibility and expansion in various rural and urban areas. All this led to search for an alternative, which could also be able to meet the needs and demands of the poor. So after diagnosing of this serious problem, there came a solution in the name of "micro-finance." Micro-finance offers services to those who are poor so that they can engage themselves into productive activities. So, micro-finance made an assurance to reach the unbankable section of the society which basically includes the poor and the unprivileged segment with the main objective of freeing the weaker sections of the society since access to social security is a fundamental human right.

In many countries micro-finance has been used as a tool to increase financial depth in rural areas and it has typically targeted very low income groups who have been excluded by the conventional financial institutions.

WHAT IS MICRO-FINANCE?

The term micro-finance can be defined as the provision of a broad range of financial services such as deposits, loans, money transfers, and insurance to small enterprises and households. Micro-finance provides micro-credit so that the poor can also access credit without any collateral requirements which is generally been demanded by formal banking sector. So, micro-finance is a tool which helps the poor to become entrepreneurs, remove poverty, and become self- dependent. It is one of the most effective tools of reducing poverty as it plays significant role in bridging the gap between the formal financial institutions and the weaker sections of the society.

In India, micro-finance has generated the efforts of rural development, wealth generation, and women empowerment with the help of providing facilities such as small scale savings, credit, insurance and other financial services to the weaker and deprived section of the society. It serves as a valuable tool for empowering the poor and to help the economy for achieving growth and development.

Micro-finance, also known as 'micro-credit' is a panacea for social and economic upliftment of people especially the poor, and also a stimulus for micro, small, and medium enterprises. 'Micro-credit or micro-finance' is banking the unbankable, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without. (Van Maanen G, 2004)

Various definitions of micro-finance are as follows:

Micro-finance can be defined as a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Most people think of micro-finance as being about micro-credit i.e. lending small amounts of money to the poor. Micro-finance is not only this, but it also has a broader perspective which also includes insurance, transactional services and most important savings. (Barr, Michel S, 2005)

The Taskforce on Supportive Policy and Regulatory Framework for Micro-finance constituted by NABARD defines "micro-finance as the provision of thrift, saving, credit and financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels to improve their standard of living".(NABARD, Mumbai, 1999)

As per the definition of International Labor Organization (ILO), Micro-finance is an economic development approach that involves providing financial services through institutions to low income clients. Additionally, micro-finance provides psychological benefits to its poor clients by promoting a sense of self –respect and dignity, much more than handouts and grants...success, self respect and dignity are the basic ingredients in overcoming the conviction that they and their children are born losers, born to fail. (Van Maanen G, 2004)

Micro-finance by definition refers to the entire range of financial and non-financial services, including skill up gradation and entrepreneurship developments rendered to the poor for enabling them to overcome poverty. In context of designing programs for the poor, micro-finance is recognized and accepted as one of the new development paradigm for alleviating poverty through social and economic empowerment of the poor, with special emphasis on women empowerment. (The World Bank,1990)

Micro-finance gained more attention in the year 2005 as it was declared as the year of micro-credit by the United Nations. In the year 2006, Prof. Muhhammad Yunus was awarded Nobel Prize for his magnificent contribution in micro-finance.

Micro-finance includes the following:

- Micro-credit: It is a small amount of money loaned to a client by a bank or other institution. Micro-credit can be offered often without collateral, to an individual or through group lending.

- Micro-savings: These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order to meet unexpected expenses and plan for future requirements.
- Micro-insurance: It is a system by which people, business and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their business while mitigating other risk affecting property, health or the ability to work.
- Remittances: These are transfers of funds from people in one place to people in another, usually across borders to family and friends. Compared with other sources of capital that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds. (Khandelwal K. Anil, 2007)

CHARACTERISTICS OF MICRO-FINANCE

The main characteristics of micro-finance include the following:

- Little amounts of loans and savings.
- Short term loan (usually up to the term of one year).
- Payment schedule attributes frequent installments or frequent deposits.
- Installments made up from both principal and interest, which amortized in course of time.
- Higher interest rate on credit (higher than commercial bank rate but lower than loan shark rates), which reflect the labour intensive work associated with making small loans and allowing the micro-finance intermediary to become sustainable over time.
- Easy entrance to the micro-finance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the client's financial and social status.
- Application procedures are simple.
- Short processing periods (between the completion of the application and disbursements of the loan).
- The clients who pay on time become eligible for repeat loans with higher amounts.
- The use of tapered interest rates (decreasing interest rates over several loan cycles), is an incentive to repay on time. Large size loans are less costly to the MFIs, so some lenders provide large size loans on relatively lower rates.
- No collateral is required contrary to formal banking practices. Instead of collateral, micro-finance intermediaries use alternative methods like, the assessment of client's repayment potential by running cash flow analysis, which is based on the stream of cash flows, generated by the activities for which loans are taken.(Murray U. and Boros R,2002)

MICRO-FINANCE IN INDIA

The seeds for micro-finance in its current form can be founded since 1904 when cooperative societies act was passed. This act was passed so that the farmers could get production credit loans through primary credit societies. But in the year 1928, the long term cooperative credit institutions were established to meet the investment needs of the farmers. In the year 1954, the All India Rural Credit Survey Committee recommended the expansion of cooperative credit system. In the year 1969, nationalization of banks took place and followed a "Lead Bank Scheme". The All India Rural Credit survey committee recommended adopting "multi-agency approach". The Government of India also realized that credit needs of rural poor cannot be met only by cooperatives alone. The commercial banks are also required to play an important role in this regard. Thus micro-finance concepts emerged in banking institutions to tackle the problem of credit needs of the poor. In between 1972-73, State Banks in India helped to increase employment through non-farm growth. But still, Indian programmes were insufficient and ended up going into the wrong hands. In the year 1974, the Self Employed Women's Association (SEWA), which was Sri Mahila SEWA Sahakari Bank, was formed as an urban cooperative bank with the main objective of providing banking services to the poor women who are employed in the unorganized sector in Ahmadabad city, Gujarat. So, in India, the earliest initiative in micro-finance can trace its beginning through SEWA and since then the bank has been providing services to those poor women who are working as self-employed persons. So, by the mid 1970s, the banking sector had three tiers system- the first tier comprises of commercial banks, the second tier comprises of RRBs and third tier consisted of cooperative banks.

Currently, micro-finance in India is being provided by three sectors namely the Government, the Private sector and third the Charities. In 1980s, the concept of micro-enterprise credit arose with the objective of providing loans to poor people especially women to invest in small scale business. Since then, the Indian government realized the importance of financial needs of the rural poor. Then in 1982, NABARD was set up for providing loans through micro-credit scheme to the rural poor. As a sub scheme of Integrated Rural Development Programme (IRDP), the development of women and children in rural areas (DWCRA) was also started in 1982. In the year 1992, SHG-Bank Linkage Programme was initiated by NABARD as a major micro-finance programme. So, with this, many banks began providing credit and savings facilities to the SHGs. During late 1990s, many NGOs were transformed into formal financial institutions i.e. (MFIs) to provide micro-finance services such as savings, insurance, credit, remittances etc. In 1998, SIDBI i.e. Small Industries Development Bank of India was set up. In early 1990s, the provision for loan was for SHGs and not to individual clientele. But in the late 1990s, the new MFIs changed the concept of credit and it includes various micro-finance products and it also includes individual clientele who are then organized into groups.

Table-1
Phases of micro-finance in India

Phases	**Year**	**Features**
Phase I	1900-1969	Cooperative Movement
Phase II	1969-1991	Nationalization of Banks and emergence of NGOs
Phase III	1992-2000	SHG-BLP was initiated, emergence
Phase IV	2000 onwards	Commercialization of micro-finance

(Source: own compilation)

GROWTH OF MICROFINANCE

In 1989, an Action Research Project started by the SHG - Bank Linkage Programme and on the basis of findings a Pilot Project set up in 1992. A partnership model was designed in this project which consist three agencies the SHGs, Banks and Non Governmental Organisations (NGOs). The overall progress of microfinance is presented from the period 2010-11 to 2017-18 in the table as follows.

Table-2
Overall progress of Microfinance

Particulars/Year	**SHG Savings with Banks as on 31stmarch**	**Loan Disbursed to SHGs during the Year**	**Loan ustanding against SHGs as on 31st March**
2010-11 No. SHGs	74.62	11.96	47.87
Amount lakhs	7016.3	14547.73	31221.17
2011-12 No. of SHGs	79.6	11.48	43.54
Amount	6551.41	16534.77	36340
2012-13 No. of SHGs	73.18	12.2	44.51
Amount	8217.25	20285.36	39375.3
No.of SHG 2014-15	76.97	16.26	44.68
Amount	11059.84	27582.31	51545.46
2015-16 No. of SGH	79.03	18.32	46.73
Amount	13691.39	37286.9	57119.23
2016-17 No.of SHGs	85.77	18.98	48.48

Amount	16144.23	38781.16	61581.3
2017-18 No of SHGs	87.44	22.61	50.2
Amount	19592.12	47185.88	75598.45

Interpretation :2010-2011 to 2017-2018 no .of SHGs growth day to day life in this year 12.82% growth No. of Saving.

MICRO-FINANCE INSTITUTIONS IN INDIA

In India, a wider range of institutions in the public sector as well as the private sector, offer micro-finance services. These can be broadly categorized into two categories namely, formal financial institutions and semi-formal institutions. The formal category comprises apex development financial institutions, commercial banks, regional rural banks and cooperative banks that provide micro-finance services in addition to their general banking activities and are referred to as micro-finance institutions (MFIs). (Karmarkar, K.G, 2008).

Micro-finance institutions (MFIs) are those which provide thrift, credit and other financial services and products of very small amounts mainly to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards**.**

MFIs have emerged broadly under three categories:

Not-for-Profit MFIs

- Societies registered under Societies Registration Act, 1860 or similar State Acts
- Public Trusts registered under the Indian Trust Act, 1882
- Non-profit Companies registered under Section 25 of the Companies Act, 1956

Mutual Benefit MFIs

- State credit cooperatives
- National credit cooperatives
- Mutually Aided Cooperative Societies (MACS)

CONCLUSION

In India there is very good future for increasing microfinance foundation. To obtain sustainable development there must be continued growth and diversification of the rural economy, all segments of the population including farmers, rural micro-entrepreneurs and the poor should have easy access to sustainable financial services such as savings, credit and insurance provided by self-reliant, sustainable financial institutions in a conductive macroeconomic policy environment and development of MFIs. Sustainable rural microfinance requires local initiative and careful donor support for the development of institutions, enabling them to offer both savings and credit services, mobilise their own resources, have their loans repaid, cover their costs from their operational income, and finance their expansion to the poor and non-poor from their profits.

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