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MICRO FINANCE STUDIES:AN INTRODUTION AND OVERVIEW

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Abstract
Recent theoretical perspectives that draw on trans-disciplinary sources and relate the discipline of international relations and the macro-field of global economic governance to the micro-field of Micro Finance have advanced a social and political analysis of a global "development architecture" in which Micro Finance is crucial to its political-economic consolidation at the base. MF has facilitated financial sector liberalisation, in so far as it functions as a safety net which dampens local resistance to neo-liberal policies.The popularity of MF demonstrates the remarkable capacity of capitalism to use the languages and criticisms of its opponents to secure the conditions for its reproduction. The pioneers of MF development practice were non-governmental organisations . But in the 21st century commercial banks developed interests in MF and many micro-enterprise-lending NGOs have also transformed themselves into for-profit organisations, regulated either as intermediaries with links to non-financial development institutions or as full-fledged banks.

Keywords:Micro Finance,Liberalisation,NGOs.

Introduction

Poor people's lives are complex; the goods, services and amenities that they need to escape from poverty—and the means by which they get them—are equally diverse. One-size-fits-all solutions are an illusion. The main challenge of development policy makers, researchers, and practitioners in all fields—be that in finance, agriculture, health or education—is to understand and respond to this complexity in ways that help build diverse, resilient socioeconomic systems that are able to serve the needs of the poor, sustainably and at scale.

Financial services help to smooth cash flows, build assets, invest productively, and, importantly, manage risks. Increasing the outreach of financial services that are affordable and meet the varied needs of poor women and men can contribute significantly to economic development and overall quality of life, key objectives of practitioners and policy makers alike. The journey from microfinance to financial inclusion began in earnest when we understood that clients need diverse services such as savings, payments, and insurance, as well as loans. Financial services that support asset building, investment, and risk management are critical for people of all ages in frontier and post conflict environments.

While there are reservations about the efficacy of MFIs in handling public money, their growth and achievements have been noteworthy. It is observed that MFIs in India want the government to empower them to mobilize savings. They have immense opportunities in microcredit given increasing demand for rural finance and the inadequacy of formal sources. It further states that NGOs have played a commendable role in promoting Self Help Groups and linking them with banks.

Micro Finance

The microfinance sector now reflects the multidisciplinary intersection of finance, technology, and development, where new ideas are changing the art of what is possible. The actors reflect this diverse ecosystem and include everything from mobile operators to microfinance institutions to community networks.

The Situation Assessment Survey (NSSO, 2003) indicated that out of the total 89.3 million farmer households in the country, 84 percent (750 million) households were small and marginal farmers and more than half (51.4 percent) of the total households were non-indebted. Further, out of the total 43.4 million indebted households, 20.3 million (46.8 percent) households had availed financial services from informal sources. The NSSO survey of farmer households for 2003 shows that 45.9 million farmer households in the country that is, 51.4 per cent out of the total 89.3 million households do not access credit either from institutional and noninstitutional sources. Further, only 27 per cent of the total farm households are indebted to formal sources; in other words 70 per cent of the farmhouses do not have access to formal credit sources (Rangarajan, 2007).

One of the powerful approaches to women empowerment and rural entrepreneurship is the formationof Self Help Groups (SHGs). Because it has made a tremendous change in the development of the society, the family and also for the individual, the live example is Tupperware in US. The credit is needed not only for food but also for the health, house, education and education too. In addition to the Indian government, world bank has also made many establishment for alleviating poverty through micro finance by Management of Micro finance Institute(MAFMI) and also by CGAP philosophy. In addition to this NABARD acts as a apex bank at national level to develop the rural banking. Microcredit emergence in India has to be seen inthis backdrop for a better appreciation of current paradigm. Successful microfinanceintervention across the world especially in Asia and parts of India by NGOs provided further impetus.

Microfinance Service Providers

The microfinance service providers include apex institutions like National Bank forAgriculture and Rural Development (NABARD), Small Industries Development Bank of India(SIDBI), and, Rashtriya Mahila Kosh (RMK). At the retail level, Commercial Banks, RegionalRural Banks, and, Cooperative banks provide microfinance services. Today, there are about1,61,480 retail credit outlets of the formal banking sector in the rural areas comprising13,000 branches of District level cooperative banks, over 15,480 branches of the Regional Rural Banks (RRBs) and over 38,400 rural and semi-urban branches of commercial banks besides almost 94,600 cooperatives credit societies at the village level.

Theoretical Framework & Background

Traditional efforts by Non Government organizations (NGOs) may reach poor clients, but are often unsustainable. Microfinance on the other hand, combines both outreach and sustainability. Such practice is perhaps most clearly embodied in the microfinance, which marries the best of the formal financial sector in terms of sustainability with outreach to poor clients of the development NGO.

Since independence, the Government of India in general and Reserve Bank of India in particular have made concerted efforts to provide the poor access to credit. However, the limited success of co-operatives forged the need for nationalization of commercial banks and later on establishment of 167 Regional Rural Banks, which have mandated credit programmes for the low income households. Despite the phenomenal physical outreach of the formal credit institutions achieved in the past several decades, the rural poor continue to depend on informal sources of credit on account of the cumbersome procedures associated with formal credit. The credit needs are small, frequent, and usually emergent and they arise at unpredictable times. For the poor, the consumptive credit needs often precede and also determine their productivity.

For various reasons, the credit flow to the poor for meeting all their requirements did not get institutionalized. Some of the major causes lie in the difficulties in dealing effectively with a large number of small borrowers, who require credit as said earlier, frequently and in small sums, and also the banks' perceptions of the risk and creditworthiness of these borrowers. To address these problems effectively the microfinance has been tried as a viable alternative in reaching the hitherto unreached and fills up the gap in the demand and supply. Microfinance is not financial intervention alone. It is a holistic approach covering social intermediation along with a provision of financial services needed by the poor such as thrift, credit and insurance.

Credit under microfinance programme is extended on the basis of social collaterals in the form of joint liability with or without Self-Help Group. Credit intervention is based on the past performance of the borrower with gradual increase in subsequent doses of credit. In short, microfinance is the cutting edge of the development of the poor.

Financial Resources of MFIs

Savings and Deposits

Internationally micro saving products, also known as retail deposits, offered by MFIs serve as a low cost source of funding and are a common practice in countries like the Philippines, Uganda, Pakistan, Peru and Kenya. Most governments only allow microfinance banks to offer micro saving products and prohibit other MFIs from raising deposits. The potential pitfall of these deposit products is that MFIs may fail to provide instantaneous liquidity. In India, the SHG model is primarily built up on mobilisation of savings. SHG members borrow funds from banks against these deposits.

Individual Philanthropic Sources And Social Investors

Non-profit investors, such as individuals interested purely in the social impact of microfinance, often lend their own money to MFIs through peer-to-peer online platforms, internationally the most famous of which are Kiva and MicroPlace. Similarly, high net worth individuals who are interested in philanthropy often give away great sums of money to MFIs, in acts known as 'venture philanthropy'.

Social investors are individuals or institutions (high net worth, foundations, endowments, and retirement plans) which choose to apply non-financial characteristics to their investment decision making. These non-financial characteristics are often related to the investors' value system or social mission, and may include concern for environmental protection, social and economic development of the poor, education and health, as priorities. For example, in India Rang De, an MFI raises money from social investors. Commercial institutions also participate in such social investment. For example, Citibank provides charitable contributions to three local MFIs in Haiti to help restore the country's microfinance industry which has suffered severe challenges in the aftermath of the 2010 earthquake.[2]

Soft loans and Grants

Concessionary or soft loans (low cost debt) or grants are another source of funds from socially responsible investors, which include national and regional development banks, international NGOs, non-profit corporations, charitable trusts, or funds held by donor and development agencies, such as the Grameen Trust, Swedish International Development Agency (SIDA), United States Agency for International Development(USAID), United Nations Capital Development Fund (UNCDF), the Asian Development Bank (ADB), the World Bank, the Bill and Melinda Gates Foundation, Ford Foundation, the International Monetary Fund (IMF), ACCION and CARE. Some development agencies only interact with governments, but their funds can be accessed either directly or indirectly by MFIs .

Investment Funds

Internationally there are many investment funds that specialise in microfinance. These funds are concentrated in the lending institutions in Latin America and Eastern Europe, but their pool of available capital is growing fast. Big banks are also entering the field: Citigroup, Deutsche Bank, TIAA-CREF, Morgan Stanley, ABN AMRO and Societé Generale are deploying their structuring and fund-management skills to offer investment products that appeal to a broad range of investor risk profiles and social motivations.

Microfinance Investment Vehicles

Microfinance investment vehicles (MIVs) are private entities which act as intermediaries between investors and microfinance institutions. MIVs may be self-managed, managed by an investment management firm, or by trustees. They may receive investments through the issuance of shares, units, bonds or other financial instruments. Depending on the type of MIV, these investments may then be provided to MFIs as debt, equity, or guarantees. MIVs make use of different currencies as well, since they are located all over the world. While some MIVs are primarily profit seeking, others additionally combine the objective of social impact. This diversity among MIVs makes it possible for many different types of investors to get involved in the microfinance sector. These have the capacity to conduct the specialised due diligence and monitoring required for sound investing in this niche market, and fund investing confers the added benefit of diversification across many MFIs, countries and currencies. The International Association of Microfinance Investors (IAMFI) estimates that as of April 2009 there are 104 MIVs with a total of $6.1 billion in assets under management.

In the Indian context, such potential has not been captured so far. The RBI Report (2011)suggests that to meet the funding requirements of the sector, a 'domestic social capital fund' may be established. This fund will be targeted towards 'social investors' who are willing to accept 'muted' returns, say, 10%–12%. This fund could then invest in MFIs which satisfy social performance norms laid down by the fund and are measured in accordance with internationally recognised measurement tools.

Quasi-Equity

The World Bank in collaboration with the Small Industries Development Bank of India (SIDBI) has designed a project to offer MFIs a new kind of quasi-equity product aimed at strengthening MFI balance sheets. Similarly NABARD is also supporting MFIs with the Microfinance Development and Equity Fund.

Non-convertible Debentures

In an attempt to create new avenues to raise funds, non-convertible debentures (NCDs) were issued by MFIs. The country's first ever NCD issue that was listed on the stock exchange was by SKS Microfinance. It had raised Rs. 750 million at a coupon rate of 10% in May 2009, which was soon followed by another issue of SKS and Grameen Koota. MFIs have increasingly tapped the NCD route to create a diversified lender base.

Bank loans

In the Indian context, commercial banks lend to MFIs and SHGs. Commercial banks in India have to meet the mandatory requirement of lending 40% of their advances to the priority sector. Thus banks are a major source of finance to MFIs and their interest rate is 12–14%. Both short-term loans and long-term debt can be acquired from commercial banks.

Private Equity

The private equity market is an important source of funds for start-ups, private middle-market companies and firms in financial distress. The huge demand for credit among the poor has become an attractive investment avenue for private equity

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and venture capital investors. These investors normally look for innovative and technology oriented ventures where a conventional source of funding is difficult. Sequoia Capital India was the first traditional venture capital (VC) firm to invest in the space with 11.5 million USD in SKS Microfinance in 2007. The International Finance Corporation (IFC), the investment arm of the World Bank, has invested 300,000 USD in Utkarsh Microfinance Private Limited, a microfinance startup providing loans in northern India. The amounts raised through private equity deals are showing an increasing trend , indicating that microfinance is a high return investment avenue. With India being a very attractive market in this field, many private equity firms have started investing here.

Equity From Capital Market Sources
MFIs have also started accessing resources through the capital market. Internationally a few microfinance institutions such as Bank Rakyat at Indonesia (BRI), BRAC Bank in Bangladesh, Banco Compartamos in Mexico and Equity Bank in Kenya have raised equity capital through public issue. The four institutions are well known throughout the microfinance industry for their exceptional growth, robust financial performance and ability to expand their outreach to the working poor

Micro Finance and Self Help Groups
Microfinance has evolved over the past quarter century across India into various operating forms and to a varying degree of success. One such form of microfinance has been the development of the self-help movement. Based on the concept of "self-help," small groups of women have formed into groups of ten to twenty and operate a savings-first business model whereby the member's savings are used to fund loans. The results from these self-help groups (SHGs) are promising and have become a focus of intense examination as it is proving to be an effective method of poverty reduction.

The formation of common-interest groups consisting primarily of women has had a substantial impact on their lives. The impact of SHGs on women's empowerment and social security has been invariably an improvement from the status quo but there is a need for support in several areas which are analyzed in this report. The status of women has generally improved as they have developed stronger confidence which has changed gender dynamics and their role in the household. In south India, significant improvements in fertility rates, female literacy, participation in development programmes and economic independence are evident. Women are able to fight for their rights and entitlements and have emerged as a force to be reckoned with. Further, SHGs are becoming more than just financial intermediaries, instead they have emerged into a more political and social unit of society.

SHG-BLP (Self Help Group-Bank Linkage Programme)
SHG - Bank Linkage Programme (SHG - BLP) is the largest microfinance programme in the world because of its sheer size and population it touches. What is equally remarkable is that it is also the most widely participated developmental programme in the country and perhaps in the world for the large number of channel partners, their grass root workers, Govt agencies and banking outlets involved.

SHG- Bank Linkage Programme is a strong interference in economic enablement and financial inclusion for the bottom of the pyramid. A confirmed platform initially conceived for increasing the outreach of banking services among the poor has since graduated to a programme for promotion of livelihoods and poverty alleviation.SHG - Bank Linkage Programme has pass through twenty-five years of persistent journey towards empowering the rural poor. Taking a huge jump from a pilot in 1992, SHG Bank Linkage Programme has now become the largest community based microfinance initiative with 85.77 lakh SHGs as on 31 March 2017 covering more than a hundred million rural households.

SHG - Bank Linkage Programme has traversed twenty-five years of unabated journey towards empowering the rural poor, in general and rural women in particular. Taking a big leap from a pilot in 1992, SHG Bank Linkage Programme has now become the largest community based microfinance initiative with 85.77 lakh SHGs as on 31 March 2017 covering more than a hundred million rural households. There was a net addition of 6.73 lakh savings linked SHGs during 2016-17, a major portion (70.4%) from priority States indicating the urge for connecting the poor households in less developed States with the development process through SHG-BLP. Coordinated efforts by NABARD and NRLM to enhance the coverage of eligible SHGs under NRLM fold has resulted in a net addition of nearly 2.9 lakh SHGs under its fold during the year. The domain of SHGs consists of 85.4% women groups and is the mainstay programme for empowerment of the poor rural women in the country. Table 4.1 gives an account of savings, credit disbursement and credit outstanding of total SHGs and under NRLM and NULM during the past three years.

Conclusion

Over the last two decades, microfinance (MF) has expanded into an important sub-field of development practice and research. At the outset associated primarily with credit for micro-businesses, MF practice has evolved to include a wider range of financial and monetary services, offered by a range of institutions, including non-government organisations (NGOs), savings clubs, building societies, credit unions, cooperative banks,commercial banks and insurance companies. They have in common the extension of services to people previously considered un-bankable due to the high-transaction costs of reaching them, low-operating margins, the perceived risks of loans and lack of borrowers' collateral estimate that 2.5 billion working-age adults (more than half the world's adult population)still have no access to financial services delivered by regulated financial institutions

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