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REVIEW ARTICLE

IMPACT OF MICRO FINANCE

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Impact of Micro Finance

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INTRODUCTION

An estimated of about 300 millions in India and around 1.2 billion population worldwide live in absolute poverty. They are unable to meet their most basic human needs for food, clothing, shelter and minimum health care. Since 1947, the absolute number of poor has doubled despite the significant growth in agriculture production and employment over the past five decades of development planning. Rural poverty continues to pose the greatest challenge in India. India today retains the dubious distinction of having the largest number of poor people on the planet. Poverty in India is closely associated with poor population, or an imbalance between population and land resources. In India landless or near landless people live close to the margin of existence experiencing seasonal unemployment and nutritional stress. The burden of such poverty falls heavily upon women and children. The low level of human development is both a cause and consequence of poverty.

THE VISION OF MICRO FINANCE:

"Five years hence, we are looking for a process change leading to empowerment of 75 lakhs poor households, and more particularly of the women from these households, through strong and viable people's structures like SHGs and mFIs which draw strength and support from the banking system with the message that banking with the poor is a profitable business opportunity for both the poor and the banks." In the development paradigm, micro-finance has evolved as a need-based policy programme to cater to the so far neglected target groups .Its evolution is based on the concern of all developing countries for empowerment of the poor and the alleviation of poverty. Development organisations and policy makers have included access to credit for poor people as a major aspect of many poverty alleviation programmes. Micro-finance programmes in the recent past have become one of the more promising ways to use scarce development funds to achieve the objectives of poverty alleviation. Furthermore, certain micro-finance programmes have gained prominence in the development field and beyond. The basic idea of micro-finance is simple: if poor people are provided access to financial services, including credit, they may very well be able to start or expand a micro-enterprise that will allow them to break out of poverty. There are many features to this seemingly simple proposition, which are quite attractive to the potential target group members, government policy makers, and development practitioners. For the target group members, the most obvious benefit is that micro-finance programmes may actually succeed in enabling them to increase their income levels.

Furthermore, the poor are able to access financial services, which previously were exclusively available to the upper and middle-income population. Finally, the access to credit and the opportunity to begin or to expand a micro-enterprise may be empowering to the poor, especially in comparison to other development initiatives, which often treat these specific target group members as recipients. For development practitioners, the success of microfinance programmes is encouraging. Too often in the past, costly large-scale development initiatives have failed to achieve any sustainable benefits, especially after funds have dried up. Thus, micro-finance has become one of the most effective interventions for economic empowerment of the poor.

The term ‘Micro Finance’ is of recent origin though we do not find this word in text books dealing with finance and financial management. But, now a days, it is freely used in the media, national/international forums, literature relating to development and prosperity of relatively disadvantaged sections of the society etc. Microfinance has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries. It has been practiced in varying forms in different countries and it has been regarded as an important tool for poverty alleviation. Although micro finance could possibly include a range of financial services targeted to the poor, in common parlance, however, micro-credit and MF are often used interchangeably with emphasis on provision of credit to the poor.

The structure of rural financial market in India is dualistic both formal and informal financial intermediaries. Consensus is growing among researchers that the formal financial sector is not effectively serving the rural population in the third world countries. This is mainly attributed to the failure of financial intermediaries in fulfilling their basic functions viz.

□□Production credit to finance income generating activities

□□Consumption credit to maintain and expand human productive capacity

□□Quality saving schemes for increasing risk-bearing capacity of the rural households. The performance of formal financial institutions particularly in their lending to the poor in India has been unsatisfactory. They face a number of constraints in broadening their services to the poor. A large number of rural households are with limited land resource and small economic activity accompanied with poor technology. But their demand for credit has been rising due to growing family size increased consumption requirement, social obligations and so on. But the institutional agencies not only lacked the required mechanism to assess their credit needs but also often overlooked their demand for credit on the ground that their needs are for non-productive purpose. Besides, pursued high risks transaction cost in small scale rural lending and absence of collateral securities kept the poor away from the fold of formal financial intermediaries. There is a strong case for a formal recognition of mF, just like institutional credit, as a strategic tool for poverty alleviation and rural development, both at the policy and implementation level. The Task Force therefore recommends that Government of India may consider making a suitable Policy Statement recognizing the role of micro finance. On this direction, the Government of India made announcements in the budget speeches of 1998-99 and 1999-2000 regarding SHG-Bank Linkage Programme. This endeavor may have to be carried further by recognizing the other initiatives of the voluntary sector in providing mF services to the poor. Self Help Group banking is the primary mode of microfinance in India today, reaching over six million families. In spite of its considerable outreach, successful savings mobilization and high repayment rates, as with most other microfinance models, the financial viability of SHG banking has not been clear. SHG federations attempt to provide financial viability and sustainability to SHG banking.

The acceptance and recognition of mF as an essential tool for poverty alleviation envisages adoption of a National Policy on mF. The major components of the National Policy are, encouraging initiatives and participation of different types of institutions in mF, Bringing the microfinance activities, irrespective of the type of institutions within the regulation and supervision by competent authorities, creating policy environment for closer linkages of the mF sector with the formal banking channels and making available equity, start-up capital and capacity building funds for the existing and prospective institutions engaged in mF including banks and various mF structures from institutional sources in the country. The poor already save in ways that may not consider as "normal" savings investing in assets, for example, that can be easily exchanged to cash in the future . After all, they face the same series of sudden demands for cash may be for health, school fees, need to expand the dwelling, burial, weddings.

As according to the “Progress of SHG- Bank Linkage in India” a yearly issue released by the NABARD, the performance of banks in linking SHGs to the banking system scaled further new heights during the year in the country. The banks financed 6,20,109 new SHGs during 2005-2006. The cumulative number of SHGs credit linked with banks increased to 22,38,565 as on 31 March 2006 as against 16,18,456 SHGs as on 31 march 2005. The cumulative progress in financing SHGs from 1992 onwards, in physical and financial terms is given in table 1.1 and as can be seen the bank loans aggregating to Rs. 1,13,97500 lakhs were disbursed to 22,38,565 SHGs from NABARD upto 31 March 2006. Sector is not effectively serving the rural population in the third world countries. This is mainly attributed to the failure of financial intermediaries in fulfilling their basic functions viz.

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METHODOLOGY

The description of the methods and procedures followed in conducting this research is furnished under the following heads.

3.1 Description of the study area

3.2 Nature and Source of data

3.3 Analytical tools employed

TERMS AND CONCEPT USED IN THE STUDY

Credit: A contractual agreement, in which a borrower receives something of value now, with the agreement to repay the lender at some date in the future.

Credit delivery models: These are the path through which micro finance/credit flow from apex level institutions to ultimate SHG members.

Expended: It is the total amount that is been forwarded from the micro finance providing institutions to the SHGs.

Interest: The charge for the privilege of borrowing money, typically expressed as an annual percentage rate.

Loan: When a lender gives money or property to borrower and the borrower agrees to return the property or repay the borrowed money, along with interest, at a predetermined date in the future

Lending: To provide money temporarily on condition that the amount borrowed be returned, usually with an interest rate.

Micro finance: Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standards.

Micro financial providers: Micro financial providers 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 level and improve living standard which may also includes non-governments.

Micro credit: Refers to a small loan to a client made by a bank or other financial institution.

NGO: Non-governmental organization, which is an informal supplementary credit delivery mechanism for lending at group level

Over dues: It is conceptualized as the non-repayment of any part or full amount of loan by the borrower to any financial institutions with in the time specified for the repayment.

Repayment: The act of returning money received previously.