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MICROFINANCE IN THE INDIAN ECONOMY AS A TOOL FOR DEVELOPMENT OF MICRO AND SMALL ENTERPRISES

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Abstract
Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households and their microenterprises. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, gradually build their asset base, develop their business, enhance their income earning capacity, and enjoy an improved quality of life. India's overwhelming majority of poor is located in rural areas and this motivated the government to give special attention to rural credit. In India, microfinance mainly operates through Self Help Group (SHGs), Non Government Organizations (NGOs), and Credit Agencies. It provides poor people with the means to find their own way out of poverty. It put the power squarely in their hands, giving them a larger stake in their own success than one –time donation of food, goods, or cash. This paper discuss about the role of micro financing for poor and vulnerable sections of India especially living in rural areas for their development.

Keywords: Microfinance, Financial Services, Development, Indian Economy, Non Government Organizations, Self Help Group.

Introduction

Unemployed or low-income individuals don't have to remain in the same financial state forever; they deserve a chance to thrive. Sometimes, all that's needed is a little help to get started. However, these individuals likely don't qualify for a standard bank loan. Micro financing is an option for impoverished dreamers looking to start a business and get ahead. Here's everything you need to know about the lending service. Microfinance, also known as microcredit, is a financial service that offers loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional sources of capital, like banks or investors. The goal of micro financing is to provide individuals with money to invest in themselves or their business. Microfinance is not a new concept. It dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. Over the past two decades, various development approaches have been devised by policymakers, international development agencies, non-governmental organizations, and others aimed at poverty reduction in developing countries. One of these strategies, which have become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor.

From the year 2000, Microfinance institutions in and around Coimbatore city have grown dramatically in terms of branches, groups, loan disbursement, number of loans, loans collected, savings clients etc. Microfinance has penetrated into rural areas of Coimbatore and Pollachi. Microfinance enables the poor and excluded section of people in the society who do not have an access to formal banking to build assets, diversity livelihood options and increase income, and reduce their vulnerability to economic stress. In the past, it has been experienced that the provision for financial products and services to poor people by MFIs can be practicable and sustainable as MFIs can cover their full costs through adequate interest spreads and by operating efficiently and effectively. Microfinance is not a magic solution that will propel all of its clients out of poverty. But various impact studies have demonstrated that microfinance is really benefiting the poor households.

In developing countries like India the structure of economy is dualistic. The rich get richer and the poor get poorer. This worsens the access of poor to economic opportunities and reaches for formal financial services. Small enterprises in India suffer from a great deal of indebtedness and are subject to exploitation in the credit market through high interest rates and lack of convenient access to credit. They need credit to fund their working capital needs on a day-to-day basis as well as long term needs like emergencies or other income related activities. So the need for financial assistance and business development services for the micro and small enterprises is essential to alleviate poverty for consistent economic growth.

History of Microfinance

While the concept has been used globally for centuries, Bangladesh's Muhammad Yunus is the pioneer of the modern version of microfinance, according to Kiva, a crowd funding-based micro lending organization inspired by Yunus' work. While working at Chittagong University in the 1970s, Yunus began offering small loans to destitute basket weavers. Yunus carried on this mission for nearly a decade before forming the Grameen Bank in 1983 to reach a much wider audience. Joseph

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Blatchford, former head of the Peace Corps and a UC Berkeley law student, is also credited with building up the modern-day micro financing efforts. Blatchford founded nonprofit Accion as a volunteer project in 1961, and in 1973, the organization began offering small loans to entrepreneurs in Brazil to see if a one-time influx of money could help lift them out of poverty. The operation was a success: 885 loans helped create or stabilize 1,386 new jobs. Accion expanded the model to 14 other Latin American countries over the next decade.

The origin of microfinance in India predates its reported existence anywhere in the world by two to three millenniums. It existed in the form of financial intermediation, comprising lending, deposit taking and other financial services known as merchant banking during the first millennium B.C. and even beyond it.

Concept of Microfinance

The concept of microfinance is not new in India. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Majority of poor are excluded from financial services. Microfinance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the villages. Microfinance is an important tool for improving the standard of living of poor. In spite of many organizations of microfinance, microfinance is not sufficient in India. According to Kofi Anan (Sec .General of UN) “Microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge and while the lack of financial services is not just a sign of poverty. Today it is looked as an untapped opportunity to create markets, bring people in from the margins and give them the tools to help themselves.” Microfinance, according to McGuire and Conroy (2000), is "the provision of financial services, primarily savings and credit, to poor households that do not have access to formal financial institutions." The Task Force on Supportive Policy and Regulatory Framework for Microfinance set up by NABARD in November 1998 defined microfinance as "the 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”. These financial services generally include deposits, loans, payment services, money transfers, and insurance to poor and low income households and their microenterprises. However, the expression microfinance denotes offering the financial services to "Zero or low income beneficiaries".

Micro Finance Models in India

A wide range of microfinance models are working in India. Experts opinion is that India host the maximum number of microfinance models. Each model has succeeded in their respective fields. The main reason behind the existence of these models in India may be due to geographical size of the country, a wide range of social and cultural groups, the existence of different economic classes and a strong NGO movement. Micro Finance Institutions in India have adopted various traditional as well as innovative approaches for increasing the credit flow to the organized sector. They can be categorized into six broad types.

1. Grameen model.
2. SHG model.
3. Federated SHG model.
4. Cooperative Mode.
5. ROSCA.
6. Micro-finance companies (MFCs).

Scheme of Micro Finance Programmer in India

Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. There are over 24 crore people below the poverty line in the country. The Scheme of Micro-Credit has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. Total requirement of micro-credit in the country has been assessed at Rs.50,000 crore. Micro-credit programmer works through NGOs/SHGs and the merit lies in weekly monitoring and refund of installments. The rate of recovery under SIDBI’s Micro credit programmer is as high as 98%. Though there are various Departments and Organizations implementing micro-credit schemes in the areas of activity falling under their purview but their total reach is very low i.e. not more than Rs.5,000 crore. Thus the existing programmers cater to only 5 to 10% of total requirements and there is considerable scope for expansion of such programmers.

In India, Micro-credit programmers are run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB). The success of Micro-credit programmer lies in diversification of services. Micro Finance Scheme of SIDBI is under operation since January, 1999 with a corpus of Rs. 100 crore and a network of about 190 capacity assessed rated MFIs/NGOs. Under the programme, total amount of Rs. 191 crore have been sanctioned up to 31st December, 2003, benefiting over 9 lakh beneficiaries. Under the programmer, NGOs/MFIs are supposed to provide equity

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support in order to avail SIDBI finance. But they find it difficult to manage the needed equity support because of their poor financial condition. The problem has got aggravated due to declining interest rate on deposits. The Office of the Development Commissioner (Small Scale Industries) under Ministry of MSME is launching a new scheme of Micro Finance Programme to overcome the constraints in the existing scheme of SIDBI, whose reach is currently very low. It is felt that Government's role can be critical in expanding reach of the scheme, ensuring long term sustainability of NGOs / MFIs and development of Intermediaries for identification of viable project.

Micro And Small Enterprises
As per the Micro, Small and Medium Enterprises Development Act, 2006, A Micro-Enterprise is defined as „A enterprise where the investment in plant and machinery does not exceed twenty five lakh rupees; A Small Enterprise, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; A Medium-Enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees‟. As per the definition micro, small, and medium enterprises are:

	Investment in plant & machinery/equipment(excluding land & building)	
Enterprise	Manufacturing Enterprises	Service Enterprises
Micro	Up to 25 lakhs	Up to 10 lakhs
Small	More than 25 lakhs but less than 5 crore	More than 10 lakhs but less than 2 crore
Medium	More than 5 crore but less than 10 crore	More than 2 crore but less than 5 crore

The major barrier to the development of Micro and Small Enterprises is access to credit. These enterprises differ in the level in which they are and the products and services offered to them by the MFIs. The micro and small enterprises need to be financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable, or growing. Stable survivors are those who benefit in having access to the financial services provided by MFIs to meet up with their production and consumption needs. Unstable survivors are groups that are considered not credit worthy for financial services to be provided in a sustainable way and Growth enterprises are Micro and Small Enterprises with high possibility to grow. In identifying the market, MFIs consider whether to focus on already existing entrepreneurs or on potential entrepreneurs seeking for funds to start up a business venture. Working capital is the main hindrance in the development of already existing SMEs and to meet up, the borrow finance mostly from informal financial services which have high interest rates and services offered by the formal sector or not offered by these informal financial services.

The Role of Microfinance in Small & Micro-Enterprises Development
Lack of access to finance has been identified as one of the major constraints hindering the development of small businesses not just in India but in other developing countries also. Commercial banks have traditionally concentrated their lending mainly to large formal enterprises which have expertise of doing business and possess collateral and not on small enterprises as they lack expertise and are riskier investment. Despite the potential of SMEs to facilitate economic growth, many studies have highlighted lack of access to finance as a major problem which hinders the growth of SMEs (Anyanwu, 2003; Lawson, 2007).

In the Focus Note on Financing Small Enterprises: What Role for Microfinance Institutions?, the authors examine the experience and role of microfinance institutions (MFIs) in serving small enterprises. They started with an overview of small enterprises and their financial needs, suggesting that they require more than just loans. They then analyzed the current and potential role of MFIs in serving this market. (CGAP 2012).

Idowu Friday Christopher (2010) conducted a study to find the Impact of Microfinance on Small and Medium Sized Enterprises in Nigeria. The findings of the study reveal that good number of the SMEs got benefitted from the MFIs loans. The findings also supported the view that, there is a positive contribution of MFIs loans towards the development of SMEs and the enhancement of their market share.

Sam Afrane (2002) conducted a study on Impact Assessment of Microfinance Interventions in Ghana and South Africa Synthesis of Major Impacts and Lessons. This paper reviews two studies conducted in Ghana and South Africa that focused mainly on impact results. The outcomes of the two case studies have established that microfinance interventions have

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achieved significant improvements in terms of increased business incomes, improved access to life-enhancing facilities, and empowerment of people, particularly women.

All the above studies provide us a solid base and give us an idea regarding Microfinance and its role in the development of MSME sector. While there has been enough research on this topic with reference to other developing countries, there is a dearth of literature and research in Indian context.

Objectives of the Study

1. To understand the concept of Micro finance, history and models of Micro finance in India.
2. To examine the role of Microfinance in the development of small and micro enterprises.

Conclusion

Micro finance plays a vital role in the development of micro and small enterprises .The importance of micro finance cannot be undermined it is essential for upliftment of poor and low income people especially living in rural areas. The economic development of any country is severely influenced by the availability of financial services. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. Many schemes has been launched by the government to promote the micro financing so that financial services can be availed by each and every individual. . It provides poor people with the means to find their own way out of poverty. It put the power squarely in their hands, giving them a larger stake in their own success than one –time donation of food, goods, or cash.

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