

The background of the image is a dark blue and purple night sky filled with numerous white stars of varying sizes. In the foreground, there is a dark silhouette of a forest of evergreen trees. The overall aesthetic is serene and celestial.

TOPIC OF THE WEEK

FEB'19 (14 to 20 Feb)

Micro Finance an effective instrument for the development in the country

The origin of Grameen Bank can be traced back to 1976 when Professor Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. Inspired by the success of The Grameen Bank, the 1970s and 80s saw rapid growth in the number of new micro-finance institutions appearing around the world, many of them started by NGOs and funded by grants and subsidies from public and private sources. They demonstrated that the poor could be relied on to repay their loans, even without collateral, and hence that micro-finance was a potentially viable business.

Over the last ten years, successful experiences in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only

realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs and grass root savings and credit groups around the world have shown that these microenterprise loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

According to Government of India official memorandum, in India Micro-credit programmes 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 programme 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 programme, NGOs/MFIs are supposed to provide equity support in order to avail SIDBI finance.

The rapid growth of micro-finance sector and varied number of microfinance providers influencing the lives of millions of clients have necessitated the need for regulating the sector. In India microfinance is provided by a variety of entities. These include banks (including commercial banks, RRBs and Cooperative Banks), primary agricultural credit societies, SHGs linked to banks and MFIs that include NBFCs, 59 section 25 companies, trusts and societies as also cooperatives (Under MACS). Currently, banks and NBFCs fall under the regulatory review of Reserve Bank. Other entities are covered in varying degrees of regulation under the respective state legislations. There is no single regulator for this sector. In this context for the orderly growth and development of the sector, the Government of India has proposed a legislation and formulated a Micro-financial Sector (Development and Regulation) Bill, 2007. The Bill envisaged NABARD to be the regulator and provides that all micro-finance organizations desirous of offering thrift services may get registered with NABAR.

Empowering women is a vital tool for alleviating poverty. Empowered women contribute to the health and productivity of whole families and communities and to

improved prospects for the next generation. Microfinance has emerged as a powerful tool for women empowerment in the new economy. In India, microfinance distribution is mainly dominated by Self Help Groups (SHGs) -Bank Linkage Programme. It aims at providing a cost effective mechanism for providing financial services to the poor section of the society.

In whole world for the last two years micro finance has a very rapid growth. In India also the number of non-banking finance companies providing credit and savings products has gone from a few dozens to several hundreds. It is estimated by Sa-Dhan, a self-regulatory organization that the total number of microfinance clients in India touched the figure of 30 million in mid-2017. Sa-Dhan, India's premier body of development finance institutions has released its latest report on the status of microfinance in India. The report titled the Bharat Microfinance Report provides the latest data and statistics about the micro-finance sector in India. The much anticipated report serves as a barometer of the sector for Indian MFI's, researchers, regulators and policy makers.

References:

- <https://www.microworld.org/en/about-microworld/about-microcredit>
- <https://indiamicrofinance.com/human-resource-management-mfi-india.html>

Additional Reading:

- <https://www.nytimes.com/2018/08/25/opinion/economy-financial-crisis.html>
- <https://www.theguardian.com/commentisfree/2014/apr/03/economics-discipline-ripe-disruption-editorial>
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- <https://www.theguardian.com/commentisfree/2017/sep/14/the-guardian-view-on-outrage-and-art-the-new-no-longer-shocks>