

MICRO FINANCE OF FINANCIAL TO SOCIAL INTERMEDIATION - RURAL CREDIT IN THE ERA OF GLOBALIZATION IN INDIA

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Introduction

MICROFINANCE is the buzzword, a product of new developmental thinking and policy-making in the globalisation era. It is a unique amalgamation of industrial (including financial) and institutional reforms in the present scenario of development economics. As a major tool of development, it is fast developing as an international industry (Fisher and Sriram, 2002). For the developing countries it has come as a breakthrough in the philosophy and practices of poverty eradication, economic empowerment and inclusive growth. Yet given the enormity of economic compulsions and complexities in agrarian economies like India, micro finance is an unfinished agenda.

While the contributions of microfinance institutions (MFIs) to monetary liquidity and financial sustainability is cognizable, it is unclear whether microfinance in its present structure contributes to reduction in poverty (Hermes and Lensink, 2007) or is the best route to rural development. The MFIs as financial intermediaries have been doing a commendable job; particularly for financial rejuvenation in the countryside. But they need to graduate into agents of social intermediation thereby bringing social capital and microfinance together. The social intermediation processes or microfinance initiatives are necessary to extend their outreach to and within poorer segments of the population, particularly women, and have a separate value in and of themselves by positively enhancing the social capital of the participants MFI by releasing the true potential of its members through social intermediation ensures building an inclusive society.

The "group" element of micro finance has become a central aspect of practice and it has been recognised by some as a methodological component equal in weight to the actual exchange of finance. Labelled "social intermediation," to reflect a parallel concept to financial intermediation, the organisation of groups to mediate financial and social services to members is seen as an essential part of the microfinance process enabling the poor to bridge a daunting series of barriers that have kept them outside the financial system - barriers that are at once physical, economic, and social. Social intermediation achieves this by creating social capital that compensates for their lack of material assets. In turn, this investment in social capital creates creditworthy borrowers where none existed before, and supports financial investments in their economic activities. In this sense MFIs become not only agents of change but also avenues of unity and solidarity. They have the potential of developing social capital. Yet not all is well with MFIs with regards to their

forms and functions. They are facing criticisms and are also receiving suggestions for alternative strategies for achieving more, intensively and extensively. For instance the question of "regulation" is currently in vogue. Although much research has been done regarding the role and reach of the MFIs as "financial" intermediaries, studies regarding the "social" perspective are limited. Therefore, it is necessary to understand this perspective contextually, both in theory and practice, with reference to the Indian economy. We also need to examine how the MFIs can and should graduate from financial intermediaries to social intermediaries in order to enhance their quality.

Defining Microfinance

To most, microfinance and microcredit mean the same, i.e., providing very small loans to very poor families, to help them in the economic activities. But specifically, microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients whereas microcredit refers to a small loan to a client made by a bank or other institution. Microcredit can be offered, often without collateral, to an individual or through group lending. The typical microfinance clients are low-income persons that do not have access to formal financial institutions.

Microfinance clients are typically self-employed, often household-based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade. In urban areas, microfinance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc. Microfinance clients are poor and vulnerable non-poor who have a relatively stable source of income.

In the most simple terms, microfinance is "banking for the poor" and covers microcredit, micro savings, micro finance and remittances. Microfinance services are financial services that poor people desire and demand (i.e. they are willing to pay) for. The term also refers to the practice of delivering those services in a sustainable manner. Christen et.al.(1984) have viewed the microfinance movement as "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers. Even the World Bank feels that the poor, i.e. the target clients of micro finance, need and use more more financial services than just microloans. In this sense microfinance is microcredit plus, the additional features of the former being:

- Deposit services (savings facilities)
- Insurance
- Money transfer (remittance) services
- Micro leasing

In this regard the definition of microfinance given by the World Bank is noteworthy:

"Micro finance refers to small-scale financial services primarily credit and savings-to people who farm or fish or herd and who operate small enterprises or micro enterprises...; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals. or machinery or tools; and to other individuals and groups at the local levels of developing countries, both rural and urban. Many such households have multiple sources of income" (Robinson, 2010).

In India the recent Task Force on Microfinance has 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. In the Indian context terms like "small and marginal farmers", "rural artisans" and "economically weaker sections" have been used to broadly define micro-finance customers. These target groups need to be given both economic and social support for development. It is now widely recognised that widening and deepening reach of the poor with microfinance have both social and commercial dimensions.

Microfinance in the Saga of Credit (The Evolution)

Microcredit, in the sense of small loans to the poor, is of ancient origins in India. Traders and moneylenders have traditionally provided credit to the rural poor. But such loans were usually made at exorbitant rates of interest leading to considerable hardship and impoverishment of borrowers, including undesirable and illegal practices like 'begar' (bonded labour).

What we refer to as microfinance today does not include such exploitative practices, but rather lending to the poor at reasonable but sustainable rates. The pioneer and mainstream institutions involved in providing micro finance in India have been the cooperatives, the Regional Rural Banks (RRBs), the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI), and the Housing Development Finance Corporation (HDFC). Then came the alternative micro financial institutions viz. the NGOs such as self-help groups (SHGs) and the Non Banking Finance Companies (NBFCs) (Prasad, 2007) The poster boys among the Indian microfinance NGOs-SHARE, BASIX, SEW A, MYRADA and PRADAN, for instance-have deservedly received attention from academicians, media-persons as well as the government.

The idea of micro finance was originally developed as a survival strategy for the poor. Then it became a part of development finance. In India, Ela Bhatt established the Self Employed Women's Association (SEWA) in 1972. It was to bring poor women together and give them ways to fight for their rights and earn better livings.

There are over 7000 micro finance institutions world wide, serving over 16 million poor people. They provide poor people with access to small loans at more manageable interest rates, and lead to self-sufficiency and poverty alleviation. Today there are many models of microcredit. Through the 1980s and 1990s, microcredit programs throughout the world improved showing that poor people, especially women, had excellent repayment rates. Some of these rates were better than the formal financial sectors of most developing countries. For instance the Grameen Bank of Bangladesh has loans currently in the hands of borrowers totaling over US\$300 million, with deposits of a similar amount. Over 95 per cent of the Grameen Bank's 3.8 million members are women. It has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. Likewise the SEW A Cooperative Bank has \$1.5 million in working capital and more than 30,000 depositors with a loan return rate of 94 per cent.

In India we notice two strands of microfinance, one, the 'mutual' strand-where microfinance is organised around the concept of mutuality as in the case of SHGs, and two, the 'providers' wherein an external agency called microfinance institution (MFI) offers the financial services without opening up its own governance structure to the clients. India is brimming with SHGs who are part of a bank linkage programme supported by the NABARD. This programme, involving banks, NGOs and Government agencies throughout the country, is now the largest microfinance movement in the world, with 2 million Self Help Groups and over 25 million members. SHGs represent a unique approach to financial intermediation that combines access to low - cost financial services with a process of self management and development for the Women who are SHG members, "SHGs are formed and supported usually by NGOs or by Government agencies. Linked to banks and also to wider development programmes, SHGs are seen to confer many benefits, both economic and Social. SHGs enable women to grow their savings and to access the credit which banks are increasingly willing to lend. SHGs can also be community platforms from which women become active in Village affairs, contest in local election or take action to address Social or community issues like the abuse of Women, alcohol, the dowry system, schools, water supply etc.

Microfinance plus (The Revolution)

Revolution in terms of reach and diversity of products / services is a unique feature and contribution of microfinance. It has revolutionised the face and phases of rural credit and credit to the poor. It is credit not just to poor but to poor who are economically active but have inadequate finance for viable activities. Similarly it is much more than provision of credit so today we hear of the call for "going beyond microcredit " or "new frontiers for microfinance" or new products or services in a limited sense. They include Social security plans such as health and life insurances, pension etc. Many MFLs have recognized the need

to be socially relevant and active in order to be commercially viable and useful. They have found appropriate ways of revenue enhancement, loss reduction and demand side management. The Kalinjiam success story is a case in the point

Having less means or low income is only one aspect of poverty; the other aspects are uncertainties and irregularities in income streams available and low accessibility to credit and investments. The specialty of microfinance in this regard is that it is meant for those have dire need of credit and yet find it most difficult to get it from the traditional sources. In these days of globalization, liberalisation and 'reforms', where profitability and 'viability' of operations are the only considerations, microfinance is proving itself to be a successful phenomenon. And as Mr. Udaia Kumar, Managing Director of Share Microfin, says "Bankers are now realising that poor people are bankable". How else would one explain the case of private commercial banks willingness to support micro-credit operations of BFCs such as Share Microfin and Basix among others? Diversity and viability are *nm-v* the "added criteria" for profitability, financially and otherwise.

Micro financing has been revolutionising the rural economy through the SHGs. The success of the concept of microcredit through SHGs has encouraged the government to use as an instrument to address the issues of poverty and unemployment (Ramakrishnan, op. cit), with emphasis at local participation and decision-making. That way the bottom of the pyramid is being addressed through innovative strategies.

Democratization and decentralization of finance for women empowerment is a revolution. Introduction of smart cards is a technological revolution. From financial management to environmental management and disaster management (e.g. rehabilitation during Tsunami) from Kisan cards to Smart cards, and from economic security to Social security, the MFLs have travelled a long distance and the journey was worth it. They have moved with the times and moved along with the locals.

Social Intermediation and Microfinance

Microfinance is a very powerful tool that can be used effectively to address poverty, empower the socially marginalized poor and strengthen the social fabric. Especially when directed at women, the benefits of microfinance multiply many folds. The use of microfinance to enhance income-generating opportunities of the poor is a popular tool for governmental as well as nongovernmental organisations working to raise standards of living in developing countries. As evidence has shown women, in particular, have high repayment rates and benefit extensively from local microfinance initiatives. Increasing attention in recent years has been paid to the ways in which microfinance fosters social capital formation among the poor (ABN-AMRO; World Bank 1999). Social intermediation ensures a certain minimum of social capital in the first phase of economic growth, and enhances its quantity and quality subsequently and sequentially.

Lynn Bennett calls social intermediation as the process "which combines the functions of social organisation and financial linkage carried out through an NGO, or local government organisation, though self-help groups or through individuals, as locally appropriate" (Hulme and Paul, 1996).

He further defines it as "the process of creating social capital as a support to sustainable financial intermediation with poor and disadvantaged groups or individuals" (Ledgerwood, 2000). Social intermediation, thus, is the process of building human and social capital required by sustainable financial intermediation for the poor. It may require subsidies for a longer period than financial intermediation, but the subsidies must eventually be done away with.

One of the formulations of social capital-a concept that is still evolving-is that it refers to the willingness of individuals to cooperate with other individuals and with institutions for a common purpose. The World Bank Social Capital Initiative considers social capital as the internal social and cultural coherence of society, the norms and values those interactions among people and the institutions in which they are embedded. Therefore, sustainable growth requires not only physical, natural and human capital, but also social capital.

Credit needs of poor sections of the society are determined in a complex social-economic milieu. While for borrowers microfinance becomes economically helpful and socially progressive for lenders also it must become economically lucrative and socially progressive. This is what societal welfare intermediation (through financial or otherwise) is all about. This is the new ethics of microfinance. Social is in-built in microfinance-in the relationship between borrowers and between borrowers and the institution, peer supervision, social collateral, sweat collateral (ala Gandhian bread labour) where the recipient has to work to earn cash to enable repayment Someshwar, op. cit). Microfinance institutions could also serve as intermediaries between borrowers and the formal financial sector and on-lend funds backed by a public sector guarantee. It is now being accepted that certain intangible human values can be used as collaterals for supporting investment in economic endeavours as in case of human capital formation, for example. This can be measured tangibly in terms of higher leverage labour productivity, abysmally low in India. The aspects of social intermediation that MFIs can count upon are trust, sharing, interaction, educating and empowering, confidence and capacity (including skills) building, gathering experiences from ex-clientele and dormant groups outreach to the neediest and so on. There is a theoretical logic here that justifies the operationalisation of social capital like trust, commitment, loyalty etc in societal relationships within the micro level institutions and also between micro level and macro level institutions. Where neither traditional systems nor modern institutions provide a basis for trust, MFIs are capable of doing this through social intermediation.

However, social intermediation is distinct from the provision of social welfare services in that social intermediation enables 'beneficiaries' to become clients able to enter into a contract involving reciprocal obligations. The level, nature and time horizon of the investment required for social intermediation varies with the barriers facing a given client/target group. It is also likely to depend on the level of responsibility in financial intermediation that the client group is required or willing to acquire (ibid).

Thus, in social intermediation institutions now have a tool other than financial intermediation to engage in and lend support to microfinance. It is an acknowledgement of the fact that many poor clients of microfinance are simply not in a position to use loans productively. Social intermediation through a range of activities and capacity-building prepares people to become good borrowers and savers, better manage their own finances or their own financial groups and help them to put whatever 'social capital' they have to more productive use. Networking develops group cohesiveness and group cohesiveness leads to empowerment. That is the beauty of micro financing. Because such interventions imply interacting closely with people at the grass roots, they are a good fit with the classic characteristics of NGOs. The trade-off, of course, is that such interventions are not likely to be financially self-sustainable. They need instead to be seen more as human capital investments. The banker must accept that this is a role which the NGO, as a committed social engineer, is better suited to execute. Social engineering is a full-time activity which has no substitute for the limited community contacts that a committed banker might indulge in. Moreover, the calling of retail banking has its own demands while credit plus initiatives are the forte of NGOs (Padhi; Ledgerwood, op. cit.). The benefits of networking also include low cost marketing, knowledge diffusion, easy access to timely health care etc.,

The Micro financial Sector (Development and Regulation) Bill, 2007 with all its legal aspects aims to ensure that NGOs use their social mediation skills to ensure financial intermediation (Shylendra, 2007). What is needed, however, is to explore the two-way relationship between financial intermediation and social intermediation before making any alterations to the prevailing structure of microfinance. This is of utmost importance in the developing countries keeping in view the need for developing social and economic infrastructure, together.

Some lacunae

Micro financing in general and social intermediation in particular is not an easy task. In a developing country with a long tradition of pecuniary and social economies and diseconomies, MFIs are facing certain shortcomings at present. MFIs have to be more careful in social engineering.

For instance there is a view that gender specific strategies, for instance, are not possible in the initial stages of designing, But in the basic SHG model shared problems of poverty, oppression and gender-based discrimination are used as entry points after which credit and savings are introduced (Ramamurti, 2007; Pandey, 2005). At one extreme there are still instances where women are given supportive roles rather than professional roles and at the other indifferent attitude of men when women assume professional role. Lack of real participatory management is a major stumbling block for empowerment of people. Lack of skills and data on intermediation parameters are the other obstacles. As a result even though MFIs succeed in replacing physical collateral with social collateral, quality assessment is lagging behind.

In India the self-help group (SHG) movement is seeking to provide social intermediation through the Rashtriya Mahila Kosh (RMK) and Women's Development Corporations, though they are still small compared to the erstwhile IRDP, says the Planning Commission.

Members of the MFI movement need to be sensitized about the relevant social issues and imperatives like population control, overcoming communal disharmony, child labour, drink evil, promoting ecological balance etc. Future MFIs need to develop composite Microfinance that encompasses financial, technical, legal and social intermediation. Diversification of activities would be apposite a gain not only for the MFIs but also for the economy.

Conclusion

Microfinance is an intervention which has emerged in response to the need to address the challenge of financial inclusion. The entry of NGOs in financial intermediation has to be seen from this angle. Using strengths of social intermediation, NGOs so far have shown considerable potential in contributing to the cause. Formal institutions have failed, and therefore, it has become necessary that NGOs are helped in overcoming their constraints (Shylendra, op- cit). But while raising questions about the potential, reach and transparency of MFIs from the financial side, we need to ask questions from the social side also. For example, what does it take for SHGs to mobilize for social or community action? How effective are such actions?. On both sides, financial and social, who is really benefiting? Do the poorest benefit, do they not join at all or if they do join, are they more likely to drop out? Have they/how have they overcome all the social barriers (including that of caste) in their intervention strategies? Studies exploring these and more questions, based on field research in all the regions of India would present a reality check of 'what is really happening', uniquely exploring both social and financial performance in the MFI sector in general and SHG movement in particular (EDA, op. cit). Answers to these questions will help decide how effective is microfinance not only as a tool of financial inclusion but also as a test of sustainable development.

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