Building Social Capital Through Micro-Finance: A Perspective on the Growth of Micro-Finance Sector with Special Reference to India

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Abstract

This article is based on the premise that poverty has its own culture. Social system and sub-systems of this culture are built on exploitation. The rich are exploiting the poor by putting them into a debt-trap of money-lending system. This system exists everywhere in the world wherever poverty exists. The poor people need money for their survival and as a result of it they become the part of the vicious circle of poverty where at one time they approach to the moneylenders and the other times to formal financial institutions. Micro-finance is an intervention based on social intermediation in which poor people can mobilize their savings, link it with credit and finally become self-employed. It results in building social capital. In the present paper an attempt has been made to understand the growth of micro-finance at global level in general and in India in particular and how micro-finance sector can contribute significantly for building social capital. From the review of literature on micro-finance, it has been revealed that there is a high demand of micro-finance all over the world. Moreover, micro-finance is not limited to rural society or developing countries only; it is equally applicable to urban society and developed countries as well. In India, the need for micro-finance is higher as the demand for credit to start micro-enterprises by the poor people could not be met by the institutional initiatives of rural finance up to large scale. Due to the failure of percolation theory of social development, poor people are highly dependent on non-institutional sources of credit. Economic weaknesses of the *Jajmani System* also gave way to increased non-institutional sources of credit. It all happened despite the high opportunities of employment generation that lie in agriculture sector and RNFS (rural non-farm sector). Growth of micro-finance in India has been in response to the failure of institutional initiatives of rural credit and exploitation attached with informal system of credit. Learning from the success of Grameen Bank - Bangladesh, many NGOs (non-government organizations) in India came forward to promote micro-finance. At present about 1000 NGOs are implementing micro-finance projects in India. Some of them are leading MFIs (micro-finance institutions) playing the role of social intermediation and building social intermediation. These MFIs have adopted different strategies of people's livelihood through micro-finance delivery. These strategies have also been discussed in this paper.

1.0 Defining Micro-Finance as a Concept and Process

Before we understand the concept of micro-finance, it would be worthwhile to understand the term micro-credit as the two terms are closely related to each other. Poor people need micro-credit for various and different purposes. It may be to meet the major household expenses, emergency needs or even basic livelihood support. There are two main systems of micro-credit (Chauhan, 1990: 50-51). One is formal financial institutions, banks and co-operatives, which provide micro-credit to the poor people under different schemes for livelihood support or helping them to start micro-enterprises. The other is informal system comprising traditional moneylenders, pawnbrokers and trade specific lenders. Both the systems have their own positive and negative aspects.

The positive aspects of formal financial system are that under this system, micro-credit is available at low rate of interest with easy and periodical repayments and moratorium period. The most important aspect of this type of credit is that it is available for income generating activities. But at the same time micro-credit from formal financial system is not easily available. The system requires collateral or security. It has complex legal and operational procedures, involving lot of paper work. Since the process of credit disbursement is time consuming, many times credit is not available in time. Finally, there is a stigma attached to the poor people so that the bankers do not think them credit-worthy and feel that the recovery rate is unsatisfactory. But this may not necessarily be true.

The positive aspects of informal system of micro-credit are that the credit disbursement is easy and relatively quick. No collateral is required and there is least paper work. Credit can be given for any activity, especially for consumption and emergency purposes. Credit is generally given for non-productive purposes as well. But at the same time there is very high interest rate in informal micro-credit system. Exploitation is also attached with this system. Moneylender takes repayment at one time only.

Based on these two systems of micro-credit, we can define "micro-credit as the provision wherein debtor takes money either from formal or informal sources of credit on unilaterally decided terms by the creditor". If we combine together positive aspects of both the systems like, low rate of interest, easy and periodical repayments with moratorium period, credit for income generating activities, easy process of disbursement, no collateral or security and less paper work etc., we come closer to understanding the concept of micro-finance.

The 'Task Force on Supportive Policy and Regulatory Framework for Micro-Finance' constituted by NABARD (National Bank for Agriculture & Rural Development) defines "micro-finance as the provision of thrift, saving, credit and financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their standard of living". The emphasis of support under micro-finance is on the poor in 'pre-micro-enterprise' stage for building up their capabilities to handle larger resources. This perception is quite significant, keeping in view the limitations of any approach of micro-enterprise development to help the poorest of the poor for self-employment (Awasthi, 1994 & 1996). The Task Force has not specified limit for the 'small' amount of financial services envisaged.

Services of micro-finance are being provided by various MFIs. In India, the Task Force mentioned above, has classified these MFIs under three categories as mentioned below:

Not-for-Profit MFIs: These include Societies registered under Societies Registration Act 1860 or similar State Acts, Public Trusts registered under the Indian Trust Act 1882 and Non-Profit Companies registered under Section 25 of the Companies Act 1956.

Mutual Benefit MFIs: Such as State Credit Co-operatives, National Credit Co-operatives and Mutually Aided Co-operative Societies (MACS).

For-Profit MFIs: Bodies like Non-Banking Financial Companies (NBFCs) registered under the Companies Act 1956 and Banks which provide micro finance along with their other usual banking services could be termed as micro-finance service providers of this type.

2.0 Some Fact Related to Demand-Supply of Micro-Finance

There is a vast unmet gap in the provisions of financial services to the poor. A very little segment of the poor people is being served by the formal financial system for micro-credit. Majority of the poor population depends on informal financial system for their credit needs. Let us look at some facts.

According to the World Development Report (2000), 1.8 billion people live in extreme poverty, subsisting on less than US $ 1 a day and almost half of the world population (2.8 billion) live on less than US $ 2 a day. South Asia is the home to half of the world's poor families. In African countries, women account for more than 60 per cent of the agriculture labour force and contribute up to the 80 per cent of the total food production, yet receive less than 10 per cent of the credit provided to small farmers.

In India, various estimates put the requirements of micro credit at Rs. 150 billion to Rs. 500 billion per year. As against these estimates, bank advances to weaker section aggregated about Rs. 100 billion per year and SHGs are estimated to provide about 1 billion per year. About 36 per cent of the rural households are outside the fold of institutional credit.

3.0 Growth of Micro-Finance Sector at Global Level

Let us look at the historical account of the emergence and growth of micro-finance sector at the global level.

The Grameen Bank, Bangladesh, was started as an experiment in 1976 and accorded a special banking charter in 1983. In 1981 NDF (National Development Foundation), Jamaica, was started with support of Pan American Development Foundation. In 1983 ADEMI (Association for Development of Micro Enterprises) was established in Dominican Republic, Santo Domingo with support from ACCION, an International Agency. In 1984 BRI (Bank Rakayat Indonesia) started micro-finance in Indonesia. In 1984, K-REP (Kenya Rural Enterprise Programme) was set up by USAID (United States Agency for International Development) to develop credit programmes for micro-enterprises through NGOs intermediation. In 1986 ACEP (Agence de Credit Pour 'L Enterprise Privee) was established in Senegal with the support of USAID. In 1986 PRODEM (Foundation for the Promotion and Development of Micro-Enterprises), which was established by USAID & ACCION

International in Bolivia, started micro finance. Later on it was converted into a bank called Bancosol (Banco Solidario) in 1992. In 1987 IDH (Instituto de Desarrollo Hondurando) was started in Honduras with the support of Opportunity International. In 1992, BANPECO (Banco Nacional del Pequeno Comercio) that is, National Bank for Small Traders was renamed as BNCI (Banco Nacional de Comercio Interior), that is National Bank for Domestic Commerce and started micro-financing in urban areas of Mexico. Micro-Credit Summit (2-4 February, 1997) held at Washington D.C. was organised to launch a global movement to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment, by the year 2005.

4.0 Few Questions Related to Micro-Finance

Three questions have taken important place in academic discussions while talking about micro-finance. The first question is whether micro-Finance a phenomenon of rural society? When we talk about micro-finance, the popular perception is that it is a phenomenon of rural society. But this is not the fact and micro-finance is applicable everywhere, wherever poverty exists. Let us look at some examples of micro-finance delivery in urban areas. KMBI (Kabalikat para sa Maunland na Buhay, Inc.) that is, Partners for a Progressive Life, a Grameen Bank replicates, in Philippines, is implementing micro-finance project in Metro Manila. Habitat Polytech, an NGO of HUDCO (Housing Urban Development Corporation), is instituting a composite micro-finance mechanism for urban poor in India. SEWA Bank, Ahmedabad has provided excellent services of micro-finance to the urban poor women of Gujarat. BNCI is operating in Mexico City.

The second question is whether micro-finance a phenomenon of developing countries? The other popular perception is that it is a phenomenon of developing countries. Again this is not a fact; it is equally applicable for developed countries (Light, 1998: 1– 4). Let us look at some examples. Caribbean immigrants are participating in ROSCA (Rotating Savings and Credit Association) in New York City. Among the Haitian community in New York folk-banking system exists which is called "SANGUE"; "Good Faith Fund" is replicating Grameen Model in Southern Arkansas.

The third question is whether micro-finance an industry of social sector? There is debate in micro-finance whether we should consider it as an industry sector or a social sector. The financial management experts feel that this sector should be treated like an industry sector. It means that any micro-finance project should be financially viable to cover the cost of credit management, cost of default and cost of devaluation from its spread (difference between the cost of borrowing and cost of lending). On the other hand development management practitioners view micro-finance as a social sector. According to them micro-finance can be one of the best poverty alleviation social programme but not a business like entity where ultimate motive is to sell its product in a competitive environment and earn a profit. In nutshell, any micro-finance project should have three basic components namely, financial, economic and social. It should be financially viable, should help the poor people to build their productive capacity for self-employment and overall it should improve the quality of life of the poor people.

This is how the micro-finance has emerged and grown at global level. Following is an attempt to understand growth of micro-finance in India.

5.0 A Critical Analysis of Institutional Initiatives of Poverty Alleviation in India

The institutional initiatives taken in extending micro-credit in India after independence can be understood in conjunction with the process of rural development and the role played by several developmental institutions for poverty alleviation and employment generation programmes. This process can be categorized under community development programme, RFIs (Rural Financial Institutions) programmes and development of co-operatives programmes. Apart from these, PDS (Public Distribution System) and agricultural / land reforms are also supposed to be major initiatives for providing the benefit to the poor section of the society and attacking poverty.

There is a huge network of institutions of development in India to alleviate poverty and generate employment. However, several things went wrong. Anti-poverty programmes could not be implemented properly. Studies conducted by Ansari (1980), Jain (1984), Chaturvedi & Mitra (1987) and Ray (1992) show that the rural development programmes were centrally invented (lacking participation of local level institutions), politically motivated, having leakage and miss-appropriation and heavy administrative expenses. Consequently, poor quality assets were provided to the beneficiaries for productive purposes.

Similar is the story of rural banking sector. Studies conducted by Basu (1979), Chippa (1987), Netherlands Development Co-operation (1992) and Rayudu (1992) show that rural credit schemes were politicised. Long-term credit institutions were more necessarily needed to finance for long period so as to enable the farmers to bring about lasting improvement. Nevertheless, this could not be done. There was lack of mobilising local savings. Regional distributions of agriculture credit were inequitable.

Studies conducted by Choudhari (1972 et al.), Attwood (1984), Baviskar & Attwood (1984) and Attwood & Baviskar (1987) on the effectiveness of co-operatives in agriculture sector show that it is not only the process of production and distribution which leads to success or failure of cooperatives in different regions of India, but also more importantly, the social system has a bearing on the same. Participation of poorer members of co-operatives in decision making was less. The rich members used loans and other financial facilities. Most of the co-operatives were formed with selfish motives of big landlords. In agriculture and land reforms, a strong lobby of agriculture landholders gradually started to dominate in the political systems, and made the political decisions in its favour. Observations made by Mathur (1996: 183-184) will substantiate this statement.

> *To quote, "Another change also began to be discerned at the central level. The occupational pattern of the members of the Lok Sabha began to shift towards the agriculturists, who began to emerge as the largest single group in the parliament. …………… at the time of the Fourth and/or Fifth Plans, agriculturists had become the single largest group in the Lok Sabha. This trend got strengthened in subsequent years. ………. The consolidation of 'vote banks' was also the consolidation of power*

of the land-owning classes. Thus, while on the one hand, they were careful to thwart any effort to implement land ceilings, they were happy to welcome special schemes to alleviate poverty, on the other.”

In a nutshell, the following statement made by Shah (1996: 89-90) will substantiate the whole scenario of institutional initiatives in micro-credit and rural development.

“At more informal levels, numerous stories of the ‘stolen borewells’, and of the ‘circulating IRDP buffalo’, of the devastating vetpatwari-bank officer-trader-beneficiary combine began doing the rounds in development folklore. By the mid-1980s, however, the nation came to a near consensus that only a tiny fraction of the resources earmarked for target groups actually reach to them; Prime Minister Indira Gandhi conceded this, somewhat gradually, as early as 1984. Prime Minister Rajiv Gandhi conceded this categorically, owing up that no more than 15 per cent of the money that his government has earmarked for anti-poverty programmes had actually reached the poor.”

Despite of the strong base of our rural economy, and despite all the rhetoric, there is consensus that more than 250 million people remain poor in India, even after 50 years of independence, irrespective of the debate on the methodology and indicators used for poverty estimates. As per the Eighth Five-Year Plan document, there is an estimated backlog of unemployment of nearly 23 million persons in April 1992. There will be an additional inflow of about 35 million in the labour force during the plan period. The document suggests that employment growth rate should be 4 per cent if we want to provide employment to all during the plan period and it should be 3 per cent for providing employment to all by 2000 A.D. But the harsh reality of employment growth rate is also stated in the document by narrating that the realm of feasibility is between 2.6 to 2.8 per cent.

Development efforts were hindered by the growth in rural population and unemployed labour force. According to the UNDP (United Nations Development Programme) Report 2001, India ranks as low 115 out of total 162 countries. There are also other problems of development related to education, health, environment, housing, sanitation and atrocities on women and people of backward castes and minorities.

Failure of institutional initiatives in providing micro-credit to the poor people in starting their enterprises and meeting household requirements gave way to non-institutional sources of credit. In other words, financial and organisational health of the RFIs is very poor due to the reasons of political interference, bureaucratic functioning, high degree of regulatory control, poor industrial relations and lack of customer driven functioning. Moreover, banks see rural lending as social obligation than as business proposition.

6.0 Non-Institutional or Informal Sources of Micro-Credit in India

In nutshell, one can say that RFIs do not fulfil the credit needs of the farmers, rural producers and the rural poor in general, resulting in non-institutional sources of credit. The indirect reason responsible for the growth of non-institutional sources of credit was also the economic weakness of the *Jajmani System*[*].

The non-institutional sources of credit would include big farmers, big farmer-cum-moneylenders, commission agents, friends/ relatives, moneylenders, traders, village shopkeepers and others. The All India Rural Credit Survey Committee, appointed by the RBI in 1951 under the Chairmanship of Gorwala, undertook a comprehensive survey of rural credit and submitted its report in August 1954. The survey revealed that shares of institutional and non-institutional sources of rural credit were 7.3 per cent and 92.7 per cent respectively.

At present about two-third of the credit need in rural areas is met out by informal sources. But the moneylenders have yet to disappear. Though they charge very high rate of interest, varying between 36 per cent to 3,000 per cent per annum, they provide timely and adequate credit to the rural poor without much paperwork and for any purpose, especially for meeting consumption and other social needs. But physical, economic and social exploitation of the poor people is attached with this system.

7.0 Opportunities Call for Micro-Finance Sector in India

Rural population is a major population segment in India. According to the 2001 Census of India 2001, 72.22 percent of the total population is rural and dependent on agriculture and allied activities for their livelihood. Due to the failure of agricultural reforms and not adopting a farmer-oriented agricultural policy, growth rate of employment in agriculture sector has declined from 2.32 per cent in 1972-73 to 1.2 per cent in 1983 to 0.65 per cent in 1985. Agriculture contributed only 31.7 percent to GDP in 1993-94 down from 56.5 per cent in 1951. But this is not the complete picture of the rural economy. The rural economy has a strong base for employment generation. Rural economy still accounts nearly 40 per cent of India's GDP including 10 per cent of RNFS. Share of exports in GDP has increased from 6.2 per cent in 1991-92 to 9.2 per cent in 1994-95. Major contribution to exports comes from the agricultural and allied sectors such as handloom, power loom, gem and jewellery, handicrafts, carpets, leather and mineral products, all of which have at least one primary rural production base. The rural market share of both consumer durable and non-durable products exceeds 40-50 per cent for most items and is growing every year.

Papola (1991) while analysing the trends in rural non-farm employment, based on the analysis of the data from the quinquennial rounds of the National Sample Survey during the 1970s and 1980s, reveals that the share of rural area in total employment has declined from around 82 per cent in 1977-78 to 78 per cent in 1987-88; that the share of the rural non-agricultural employment has increased from around 14 per cent to 17 per cent in total employment; and from 17 per cent to 22 per cent in rural employment. Employment in the

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[*] W H. Wiser in his study of Karimpur village of United Provinces of India during 1930s found that Jajmani System is an example of solidarity in inter-caste relationships, but at the same time it does not represent symmetrical interrelationship for the members of different castes involved in the system. He found that the system has economic weakness.

rural non-agricultural activities has thus been growing much more rapidly than the overall employment, agricultural employment and also urban employment. In fact, the non-agricultural rural employment has grown at an average rate of about 5 per cent during the ten-year period 1977-78 to 1987-88. Consequently, there has been a shift from agriculture in which employment has grown at a rate of only 0.74 per cent, to the non-agricultural activities. It is because of decrease in self-employment and regular wages/ salaried employment in agriculture and increase in employment in non-agricultural sector.

Micro-enterprises established in RNFS contribute about 40 per cent of the gross industrial turnover and 34 per cent of total exports. RNFS is the potential sector for employment generation through establishment of micro-enterprises. There is a need to match the decline in agriculture sector with the gain in non-farm activities, to absorb the surplus labour from agriculture. Eighth Five-Year Plan document (Government of India 1992: 122) states that:

> *"In the long run, however, it must be recognised that agriculture and other land-based activities, ever with a reasonably high rate and possible diversification of growth, will not be able to provide employment to all the rural workers at adequate levels of incomes. One fifth of rural workers are engaged in non-agricultural activities. This proportion has shown a remarkably rapid increase in recent years. Available evidence suggests that this shift is attributable to the growth of productive employment opportunities in the non-farm sector in rural areas, and is not a result merely of the over crowding in agriculture. Appropriate strategies and policies need to be evolved to strengthen this trend towards diversification of rural economy. Practically, all non-agricultural activities have shown a steady increase in employment. It must be recognised that increasingly larger components of rural industrial activities now consist of non-traditional activities with forward and backward linkages with agriculture. Unlike many traditional village industries which constituted only secondary and supplementary occupations, these activities are pushed as main occupations."*

8.0 NGOs Involvement in Micro-Finance and Strategies of People's Livelihood

However, there is no smooth flow of funds from any sources to provide loans to the rural poor for establishing their micro enterprises in the RNFS. Karmakar (1999: 164) laments that:

> *"Moneylenders rarely provide credit for capital assets acquisition. They concentrate on lending for consumption needs and social/ medical contingencies while trader-lenders provide working capital. Thus, venture capital for the rural non-farm sector is generally financed from own resources and supplemented by loans from friends and relatives. The time taken for getting a loan sanctioned by a bank for the rural non-farm sector can very from two months to 18 months. Some moneylenders do provide bridge loans to those rural borrowers who have been sanctioned bank loans but have yet to receive the funds."*

Based on the observations of the failure of development policy and administration, with a weak role played by the State in supporting the institutions of development, Shah (1996) emphasized the importance of developing NGOs as change agents. Government of India (1985a, 1985b) also realized its failure in properly implementing development projects and decided to involve NGOs during the Seventh Five-Year Plan, in executing development projects. The NGO's strength lies in target group approach, flexibility, experimentation, innovation, grassroots presence and motivation.

By learning from the example of Grameen Bank, Bangladesh, many NGOs in India, came forward to provide financial services to the rural poor and RNFS enterprises. For NGOs, it is also a shift in approach from development to empowerment wherein they can plan their withdrawal strategy from service delivery projects and think of their own sustainability by providing financial services. At present there are almost 600 NGOs involved in micro-finance delivery systems in India. These NGOs have adopted different strategies of promoting people's livelihood through micro-finance. These strategies are based on their clientele, approach, focus area, interest rate, savings linkages, collateral, coverage and organisational/ legal structure. These strategies can be classified into four broad categories, namely, SHG promotion, MFI, micro-enterprise development and social development.

8.1 SHG Promotion Strategy

The SHG promotion approach is based on the premise that the NGO promotes SHGs and provides them services as financial advisor. This ultimately leads to build the capacity of SHGs in terms of savings mobilisation, linking them with banks and providing technical support in starting viable micro enterprises by the members of SHGs members. In this approach NGO basically is a mediating contact between SHGs and banks. NGO also examines creditworthiness of the SHGs so that bank can lend money to the SHGs. In all this NGO gets some financial support in terms of grant from Apex Financial Institutions (AFIs) like NABARD and RMK (Rashtriya Mahila Kosh).

The examples of such NGOs who are following SHG promotion approach are: MYRADA in Karnataka, SHARE in Andhra Pradesh, RDO (Rural Development Organisation) in Manipur, PREM (People's Right and Environment Movement) in Orissa & Andhra Pradesh, YCO (Youth Charitable Organisation) in Andhra Pradesh, Anarde (Acil Navsarjan Rural Development Foundation) in Gujarat, PRADAN (Professional Assistance for Development Action) & RUDSOVAT (Rural Development Society for Vocational Training) in Rajasthan and ADITHI in Bihar.

8.2 Micro-Finance Institution Strategy

The approach of promoting MFIs is based on the premise that AFIs like SIDBI (Small Industries Development Bank of India), RMK and other donor agencies provide bulk lending, soft loan and some grant to such NGOs which can act as MFIs by on-lending the money to the poor people/ SHGs/ Federations/ smaller NGOs. These MFIs stimulate the credit demand of the poor people. They also provide technical support for the beneficiaries to ensure proper utilisation of loans and repayment. At the same time they meet their cost of funds, cost of credit management and cost of default through the spread of interest and generate surplus for the viable operation of micro-finance.

The examples of such MFIs are Sewa Bank & FWWB in Gujarat, BASIX in Andhra Pradesh and RGVN (Rashtriya Grameen Vikas Nidhi) in north-eastern states, Orissa and Bihar.

8.3 Micro-Enterprise Development Strategy

Entrepreneurship is one of the most important inputs in the economic development of a country and of the regions within the country. Economic growth and industrialisation are the by-products of entrepreneurship. It is a breeding ground for the development of small-scale enterprises. The term EDP (Entrepreneurship Development Programme) means a programme of entrepreneurship development designed to help a person in strengthening his/ her entrepreneurial motive and in acquiring skills and capabilities necessary for playing his/ her entrepreneurial role effectively. It inculcates entrepreneurial traits into a person and develops his/her personnel, financial, technical, managerial and marketing skills. There are number of programmes which are aimed at providing informational or managerial inputs required by a new entrepreneur. However, a programme not touching upon entrepreneurial motivation and behaviour cannot be called an EDP (Desai, 1991). EDP covers mainly three variables: (i) target group, (ii) location and (iii) enterprise development or entrepreneurial activities. All of these variables are strongly inter-linked with each other. To make EDP successful and effective, the role of the NGOs has significant importance in terms of identification of place or location, pre-promotional activities, selection of potential entrepreneurs, entrepreneurial training, monitoring and follow-up mechanism.

NGOs are playing important role as catalyst in helping the rural unemployed persons to acquire training through MEDPs (Micro-Enterprise Development Programmes) so that they can become self-employed by starting their enterprises in RNFS. Moreover, they can also become job providers instead of job seekers. Thus, institutionalisation of MEDPs through NGOs can be an alternative approach of rural development in India. The success of any MEDP in terms of starting the enterprises by the trainees trained under it depends mainly upon the availability of loan. Micro-finance sector can provide help to solve this problem. Micro-finance for micro-enterprise development is a proper approach in India.

Some of the NGOs in India have adopted the approach of micro-enterprise development through micro-finance. The examples are CDF (Co-operative Development Foundation) in Andhra Pradesh, LHWRF (Lupin Human Welfare Research Foundation) in Rajasthan, UPLDC (Uttar Pradesh Land Development Corporation) in Uttar Pradesh and Group Enterprise Development Project of EDI (Entrepreneurship Development Institute of India) in Nagaland.

8.4 Social Development Strategy

The social development approach of micro-finance is based on the premise that people should earn money by investing in viable micro-enterprises. They should earn profit from their enterprises. Major share of the profit should be reinvested in enterprises for their growth. The other share of the profit should be spent on social development that is, health, education, housing, sanitation etc. By earning profit from the viable micro-enterprises, people will increase their paying ability for services delivered to them under different social development projects run by NGO and States/ Central Government. For the NGOs and Government it can be a process of gradual withdrawal and for people, decrease dependency on the NGOs and Government. Such projects have micro-finance as a major component coupled with social service delivery.

These projects have demonstrably positive effects. The examples of such projects are Indo-Canada Agriculture Extension Project in Uttar Pradesh, IFFDC (Indian Farm & Forestry Development Corporation) project of farm and forestry development in Uttar Pradesh and Rajasthan, ICDS (Integrated Child Development Services) project of RASS (Rayalseema Sewa Samiti) in Andhra Pradesh and Conversion of ICDS project into Indira Mahila Yojana.

9.0 Role of Apex Financial Institutions in Micro-Finance

Since the emergence of micro-finance sector in India, role of AFIs has become significant. NABARD initiated the process of micro-finance in India through linkage programme of SHGs under Automatic Refinance Scheme. SIDBI is second important player in micro-finance, providing bulk lending to MFIs. RMK is the third player providing loans to NGOs for on lending to the women SHGs. These are the three major AFIs in India. Each has a different approach in micro-finance sector. While NABARD's emphasis is entirely on SHGs linkage programme by mobilising their own savings also, SIDBI is focusing on building and creating larger MFIs and RMK is lending money to smaller NGOs as well.

Taking into consideration the growth and potential of micro-finance sector in India, other organisations and international agencies have also made their entry in the micro-finance sector by providing loans and grants to NGOs for different income generating projects as well as for incorporating micro-finance component in the service delivery projects of social development. The important names among them are HUDCO, NBCFDC (National Backward Classes Finance Development Corporation), NMFDC (National Minorities Finance Development Corporation), National Handicrafts Development Corporation (NHDC), OXFAM (Oxford Committee for Famine & Relief), NOVIP (Dutch International Development Agency), GTZ (Gesellschaft fur Tecnische Zusammenarbeit), CIDA (Canadian International Development Agency), ActionAid, CARE India, International Fund for Agriculture Development (IFAD), UNDP, UNIFEM (United Nations Development Fund for Women), British Department of Foreign and International Development (DFID) and Consultative Group to Assist the Poorest (CGAP).

10.0 Summing Up

Though in its young age, micro-finance sector has a diversified growth and multiplicity of impact. It is seen as an important phenomenon in the process of development, especially in context of globalisation and liberalisation wherein subsidy and grant based programmes / schemes are losing their importance. Micro-finance sector is seen as the best option based on saving mobilisation of the poor people and credit linkages. In India, many AFIs have come forward to lend money to the MFIs. MFIs of different nature (NGO registered under Societies Registration Act, Trusts under Public Trust Act, Co-operatives under Co-operative Act, NBFCs under Company Act and LABs under Banking Act etc.) have also come up with different strategies of promoting people's livelihood. The poor people, on whose shoulders the success of sector is depending, are also participating in the growth of this sector. Government is also interested and is closely monitoring the sector from the policy and regulatory point of view. The sector has also opened scope for research, training and consultancy.

In a holistic perspective micro-finance is a process of social intermediation and building social capital. Process of Social intermediation is an investment that is made for development of both human resources and institutional capital to make marginalized groups self-reliant in preparing them to engage in formal financial intermediation. According to Elaine & Barton (1998), social intermediation is a financial intermediation with a capacity building component, aimed at those sectors of society that lack access to credit and savings facilities. It can be understood by transformation of beneficiaries into clients or customers and creation of local institutions that bridge the gap between the formal financial institutions and marginalized groups. The concept of social capital is the key theoretical element in social intermediation, derived from the anthropological and sociological literature. According to Pischke (1991) micro-finance is primarily social as the Latin root of credit (credere) is to believe or entrust.

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